United Nations E/2003/19

Economic and Social Council

Distr.: General
14 May 2003

Original: English

Substantive session
Geneva, 30 June-25 July 2003
Item 10 of the provisional agenda*
Regional cooperation

Summary of the economic survey of Latin America and the Caribbean 2002

Summary

Economic activity in Latin America and the Caribbean contracted by 0.6 per cent in 2002. As a result, the region's per capita gross domestic product (GDP) growth for the year was below the 1997 level, which means that a full half-decade has been lost to the region in terms of economic growth. The region-wide average was influenced by the South American economies, especially those of Argentina, Uruguay and Venezuela, but activity was slack in almost all countries. The unemployment rate reached an all-time high of 8.9 per cent, despite a considerable increase in informal employment. Social conditions deteriorated concomitantly and 7 million people across Latin America and the Caribbean fell below the poverty line.

The adverse external environment was a determining factor in the region's poor economic performance. Three factors were particularly influential, although their effects varied from country to country. The first was the deterioration in financing conditions, which had an especially strong impact on the Southern Common Market economies in terms of both the cost and volume of external resources. The second was the loss of momentum in the United States economy in 2001-2002, which affected Mexico, Central America and parts of the Caribbean in particular. The third was the worsening terms of trade for non-oil-exporting countries, which lost ground in this respect for the fifth year running.

* E/2003/100.

03-35904 (E) 120603

The response capacity of domestic economic policy was very limited. Most of the countries deployed tight monetary and fiscal policies in an effort to shield their currencies against exchange-rate pressures and attain a sustainable trend in terms of the accumulation of public debt. In most instances, real exchange rates were the only factor that helped boost the production sector's competitiveness. Few countries enjoyed enough economic manoeuvring room — carried over from previous years — to pursue countercyclical economic policies.

Inflation rose to 12 per cent, double the rate for 2001, owing almost entirely to currency devaluations, since wage trends were generally in line with changes in productivity.

Even though average GDP growth for 2002 was weak, it picked up pace as the year progressed, with a positive rate being posted for the final quarter. The continuation of this trend underlies projections of a 2 per cent growth rate for the region in 2003.

Contents

		Paragraphs	Page
I.	General outlook	1–16	3
II.	External sector	17–39	6
III.	Macroeconomic policy	40–53	10
IV.	Domestic economic performance	54–75	12

I. General outlook

1. Economic activity in the region declined by 0.6 per cent in 2002, resulting in a negative per capita growth rate (-2 per cent) for the second year in a row. The hardest-hit economies were Argentina, Uruguay and Venezuela, while per capita GDP was flat in the rest of the countries. This performance rounds off five years of sluggish growth (-0.3 per cent average annual per capita GDP growth since 1998) within an adverse international economic environment. Social conditions in the region have deteriorated in line with these trends.

2. The slump in GDP is largely attributable to the economic slowdown in 2001. The great majority of the countries in the region witnessed a break in this trend in the first half of 2002, however. Even the downward slide in Argentina's economy came to a halt in the second quarter of 2002 (over half of the contraction in GDP for 2002 is due to the downturn that preceded the discontinuation of the convertibility regime). These short-term swings in economic performance have been kept within a range of quite low rates, however, and thanks to the continuation of this mild recovery, the region's GDP is expected to expand by 2 per cent in 2003.

3. The region's performance has been influenced by the adverse international economic conditions generated in 1998 by the repercussions of the Asian crisis and the imbalances that built up during the 1990s. The external events that have had the strongest impact on the region have been the deterioration in international financial conditions, the slowdown in economic activity in the United States and the steady decline in the non-oil-exporting countries' terms of trade.

4. The most significant factor of all was the downturn in the international financial market, which had a particularly strong impact on the Southern Cone Common Market (MERCOSUR) economies. Net external resource transfers for Latin America as a whole amounted to -US$ 39 billion in 2002 (2.4 per cent of GDP at current prices), with half of that figure corresponding to Argentina. The economies more affected by this phenomenon (measured as a percentage of GDP) were Uruguay, Argentina and Venezuela.

5. The prevailing external financial conditions were also reflected in higher risk premiums on external public debt paper (i.e., widening sovereign spreads), which more than offset the decrease in international interest rates. In 2001, Argentina had moved beyond the 4,000 basis-point threshold, and its spread soared to nearly 7,000 basis points in 2002 — an order of magnitude associated with a perception of insolvency. Contrary to what the international financial community had assumed, the situation in Argentina had a direct impact on Uruguay and Paraguay, as well as indirectly affecting other economies in the region.

6. The uncertainty generated by the presidential elections in Brazil drove sovereign spreads up to over 2,400 basis points. This state of affairs reflected an overreaction by the financial market to a country which, after several years of adjustment, was running both a primary fiscal surplus and a surplus on its trade balance. The conclusion of an agreement with the International Monetary Fund (IMF) eased financial tensions somewhat and spreads began to narrow, although not to a sufficient degree.

7. Slackening economic activity in the United States in 2001-2002 was also a significant factor, especially in Mexico, the five members of the Central American

Common Market, the Dominican Republic, Haiti and Panama. Only three of these countries (Costa Rica, the Dominican Republic and El Salvador) had positive per capita GDP growth rates, but even in these cases the rates were below their historical averages.

Latin America and the Caribbean: main economic indicators

	2000	2001	2002[a]
Economic activity and prices	*Annual growth rates*		
Gross domestic product	3.8	0.3	-0.6
Per capita gross domestic product	2.2	-2.9	-2.0
Consumer prices	9.0	6.1	12.2
Terms of trade	6.0	-2.9	-0.3
	Percentages		
Open urban unemployment	8.4	8.4	8.9
Fiscal balance/GDP[b]	-2.5	-3.2	-3.4
External sector	*Billions of dollars*		
Exports (goods and services)	407.4	392.0	390.9
Imports (goods and services)	420.5	412.2	381.3
Merchandise trade balance	4.5	-1.2	23.4
Services trade balance	-17.6	-19.0	-13.8
Balance on factor income account	-53.2	-54.6	-51.1
Balance on current account	-46.0	-51.0	-15.1
Balance on capital and financial account	60.7	32.6	-12.5
Overall balance	14.7	-18.4	-27.6
Net resource transfers	-0.2	-4.8	-39.0

Source: ECLAC, on the basis of official figures.

[a] Preliminary estimates.

[b] Simple average.

8. The terms of trade for Latin American economies have deteriorated since 1998, except in the case of net exporters of petroleum and petroleum products (Venezuela, Ecuador, Mexico, Colombia and Argentina) and the Dominican Republic. The hardest-hit countries over the past five years, Brazil, Chile and Peru, have posted double-digit reductions. In 2002, Brazil, Bolivia and Honduras sustained the worst losses, with decreases of nearly 3 per cent or more.

9. Overall, the most conspicuous aspect of economic policy in 2002 was the authorities' loss of a degree of freedom in managing economic events as they unfolded. This loss of manoeuvring room was attributable both to the greater external constraints and to the imbalances that had built up during the years when the economic outlook was brighter.

10. In consequence, with very few exceptions, monetary policy in the region was contractive, mainly in response to pressure on exchange markets. In the economies

that were affected the most by these financial disturbances, the depreciation of their currencies generally overshot the mark, while the trend in sovereign spreads was reflected, in most cases, in rising domestic interest rates. Some countries (for example, Chile, Colombia, Mexico and Peru) were able to pursue expansionary monetary policies. These policies were not, however, always successful in galvanizing public-sector credit owing to the cautious stance adopted by banks and borrowers alike. Fiscal policy also had less manoeuvring room in most of the region's economies. This was partly because the available degrees of freedom had already been used to implement countercyclical policies in the three preceding years. Some of the countries carried on with their efforts to improve public finances by employing structural means to boost fiscal revenues. They include Brazil, Colombia, the Dominican Republic, Ecuador, Guatemala, Nicaragua and Panama. Accordingly, most of the region's economies implemented fiscal policies designed to address public debt sustainability, thereby generating an additional contractionary force.

11. The chief lesson to be learned in this respect is that the capacity to pursue countercyclical fiscal policies is built up during economic booms. If, on the other hand, procyclical policies are implemented during boom years, then, during economic busts, fiscal authorities will have no choice but to use policy measures that will inevitably amplify recessionary factors.

12. Uneven trends in real bilateral exchange rates within the region were another hallmark of the year 2002. With the exception of Ecuador, Guatemala and Trinidad and Tobago, all countries' currencies depreciated against the dollar and the euro in real terms. Trends in real bilateral exchange rates within the region, on the other hand, were quite mixed. Nevertheless, in 2002 it was seen that real exchange rates would eventually align themselves with the level of competitiveness exhibited by a country's production sector. Whenever exchange policy has diverged from that course — either because it has been used as a nominal anchor to stabilize the inflation rate or because financial stimuli have temporarily pointed in the other direction — the deterioration in the production sector's competitive position has eventually made a change in policy necessary.

13. The adverse signals sent out by the international economy and the national policy responses to them affected the economies of South America the most, and these economies were also the ones that had the greatest influence on the regional averages. Crises in three of the four Southern Common Market economies grew more serious. This was especially the case in Argentina and Uruguay, while Brazil posted a modest economic growth rate (1.5 per cent). Among the other countries of South America, Venezuela was conspicuous for a contraction in GDP of nearly 9 per cent. Peru and, to a lesser extent, Ecuador and the Dominican Republic were the only other countries to turn in a fairly strong growth performance in 2002. The other countries of the region were unable to halt the decline in their economies' forward momentum. The English-speaking Caribbean had a mixed performance, but on the whole managed to achieve a moderate rate of growth.

14. Gross fixed capital formation (measured as a percentage of GDP) fell for the fourth year running in 2002. Lower investment would appear to be a harbinger of a reduction in growth potential over the medium term and, in the more critical cases, short-term growth may have to be buttressed by the use of production resources that have been underutilized (unemployment, underemployment and idle production

capacity) during the recent spate of recessions. The lower level of investment in 2002 was not associated with a drop in national saving, but was instead the natural counterpart of the adjustment in the deficit on the balance-of-payments current account (or external saving). The adjustment in this variable amounted to the equivalent of 1 per cent of GDP at current prices in 2002, as compared to the 2.7 per cent average for the 1990s, and was primarily achieved through a reduction in imports. The combination of decreases in investment and external saving revealed the existence of the external constraints generated by an underutilization of domestic factors of production and a situation in which the balance of payments has come to exert a decisive influence on the level of economic activity. For the majority of the region, this was the first time that such a situation had arisen since the 1980s. These external constraints were particularly severe for the four economies of the Southern Common Market.

15. The unemployment rate climbed from 8.4 per cent of the workforce in 2001 to a regional record of 8.9 per cent. These figures attest to the cyclical nature of employment, but they also underscore the structural deterioration seen throughout the preceding decade, which has been reflected in unemployment levels even higher than those seen during the crisis of the 1980s. Real wages were, on average, 1.6 per cent lower than in 2001. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that during 2002 the number of poor people in the region swelled by over 7 million.

16. Inflation doubled, rising to 12 per cent. This was a direct consequence of the nominal devaluations that occurred, rather than the result of pressure for wage increases that would have outstripped productivity gains.

II. External sector

17. Net external resource transfers for the region as a whole amounted to -US$ 39 billion in 2002, or 2.4 per cent of GDP. The net inflow of resources had been reversed in 1999, but the region had not seen an outward flow of this size since the late 1980s. The main reason for this was the steep reduction in net capital inflows, coupled with a drastic adjustment in the trade account brought about chiefly through a contraction of imports. Sluggish world production and trading activity served as the backdrop for these developments.

18. The regional trade balance went from a US$ 20.2 billion deficit in 2001 to a US$ 9.6 billion surplus in 2002. This was the first positive balance to be recorded in over a decade. The hefty trade surpluses posted by Argentina, Brazil, Venezuela and, to a lesser extent, Chile more than made up for the other countries' shortfalls. A positive balance was also registered for current transfers. These transfers, which are mainly composed of family remittances and have come to represent an important source of external finance for some countries, maintained the upward trend of the preceding years, climbing to over US$ 26.3 billion.

19. The trade surplus and transfers were not enough to cover net payments of profits and interest, which amounted to US$ 51 billion. At US$ 15.1 billion (1 per cent of regional GDP), however, the resulting deficit on the regional balance-of-payments current account for 2002 was far smaller than the deficit of over US$ 51 billion registered in 2001.

20. The financial disturbances which troubled the region were reflected in the erosion of the capital and financial accounts on the balance of payments. Problems in obtaining external financing, dwindling inflows of foreign direct investment (FDI) and large-scale outflows of short-term capital resulted in a steep decline in net inflows of autonomous capital, especially in Argentina, Brazil, Uruguay and Venezuela. The region's deficits on the current and financial accounts were covered with compensatory financing and a small reduction in international reserves.

Capital inflows reached their lowest point since 1989

21. In 2002, as conditions in international financial markets deteriorated, capital flows to Latin America and the Caribbean slipped to the lowest levels seen since the late 1980s. Owing, in part, to the climate surrounding the run-up to the elections in Brazil, investors became increasingly risk-averse, especially in the period between June and September. As a result, the region's external borrowing conditions took a turn for the worse as widening sovereign spreads more than offset reductions in international interest rates. These financial disturbances abated in late 2002 and early 2003, however, and spreads began to narrow, particularly for Brazil.

22. Capital inflows amounted to US$ 12 billion in 2002, as compared to the US$ 58 billion received annually by the region, on average, between 1991 and 2001. The downturn in compensatory capital flows was widespread and the figures for some of their principal components were negative in net terms. This situation is likely to persist in a number of countries owing to the high levels of debt that they had built up during the 1990s and the continuing "flight to safety" that has curbed inflows of capital to "emerging" markets.

23. Among the components of autonomous capital flows, foreign direct investment totalled US$ 40.3 billion, which was far below the annual average of US$ 67 billion recorded between 1997 and 2001. This decline was due in part to short-term factors, which, depending on the country concerned, ranged from recession to greater political instability or the uncertainty generated by changes in the economic situation (all of which occurred in Argentina, for example) and in part to longer-term factors such as the completion of privatization processes in many of the countries.

24. Following a period (1992-1997) during which capital flows from international banks had returned to the region in abundance, net financial flows to the region began to taper off. The region's debt to international banks shrank by about 20 per cent between late 1997 and late 2002. Equity flows remained volatile and the first half of the year saw a net outflow of capital.

25. Another major source of financing in the 1990s was provided by international bond issues. In 2002, international bond placements totalled US$ 19.5 billion, or about half the figure recorded for 2001. The bulk of these operations consisted of sovereign bond issues, most of which were launched by Brazil, Chile, Colombia, El Salvador, Mexico and Peru, while the proceeds were used almost entirely for debt rollovers. There were few corporate bond issues during the year.

26. The terms and conditions of these bond issues continued to reflect the generally negative trend that has prevailed since the Asian crisis. Maturities remained at approximately seven years, while the average cost of new issues hovered around an annual rate of 11 per cent in the first quarter, before rising to 14 per cent in September and then dropping slightly thereafter. This average figure

masks a range of quite dissimilar cases, however. The increase was entirely attributable to the larger spreads paid by the countries of the region, since the yield on 10-year United States Treasury bonds held steady at about 4 per cent per year.

27. Given the countries' limited access to voluntary financing and the balance-of-payments crises affecting a number of them, compensatory financing, particularly from the International Monetary Fund (IMF), became extremely important. Battered by the Argentine crisis and with virtually no access to voluntary credit, Brazil and Uruguay were able to secure sizeable IMF loans. Other countries were unable to secure loans from this source, however, since they had not yet reached an agreement on conditionalities.

Foreign trade continued to feel the effect of the sluggish global economic environment

28. The world economy's general lack of momentum in 2002 led to a further decline in the terms of trade for most of the countries (particularly the non-oil-exporting countries), strengthening the downward trend observed since 1998, following the Asian crisis.

29. Lower commodity prices were the main cause of the downturn. The commodity price index for products other than oil exported by Latin America and the Caribbean dropped by 1.2 per cent in 2002 with respect to the average for 2001, resulting in a cumulative decline of nearly 6 per cent in two years. Raw materials (especially minerals) were the most seriously affected, along with some food products (in particular sugar and shrimp). Coffee was again the most dramatic casualty, however, as prices slid by another 10 per cent, prolonging the downward trend. Exceptions to this trend included grains, fishmeal, wool and gold.

30. The unfavourable external environment was also reflected in exports, which grew fairly haltingly (by less than 2 per cent) for the region as a whole and shrank in nearly half of the countries.

31. The United States market was far from being the engine of growth for neighbouring countries that it had been until 2000. The sales of Caribbean Community (CARICOM) member countries to that market (which is a vital one for them) actually decreased. Bahamas, Montserrat and Saint Kitts and Nevis were among the few exceptions in this respect.

32. The contraction of the intraregional market by an estimated 14 per cent, owing to the slack pace of economic activity in the region, also hurt export volumes. The sharpest decrease (37 per cent) was seen in the Southern Common Market countries, where the proportion of total exports represented by intraregional sales declined to 11 per cent, as against the 25 per cent share recorded in 1998. Trade within the Andean Community was down by 7 per cent, while sales within the Central American Common Market were flat.

33. In many countries, currency depreciations led to a contraction in imports rather than to an expansion of exports. This was due to the predominance of commodities — whose supply is inelastic in the short term — among the export products sold by most countries in the region. Brazil departed from this trend, however, with a sizeable increase in its export volumes being registered in the second semester thanks, among other factors, to the increased competitiveness generated by the devaluation of its currency.

As a result, exports weakened and imports were lower in most of the countries

34. All in all, merchandise export earnings declined in a majority of the countries, while an even larger number witnessed a decrease in imports.

35. The Central American countries had to contend with lower prices for their main agricultural exports, including coffee, sugar and bananas, as well as with the downswing in the United States market. Costa Rica and El Salvador, where manufactured goods produced under the maquila and free-zone systems represent a large percentage of total exports, were the only economies in which sales rallied from their previous downturns, and the recovery was a limited one in the case of Costa Rica. In the case of Mexico, whose main trading partner is the United States, exports dropped during the first quarter and, although they then picked up somewhat, export growth was almost flat for the year as a whole, thereby preventing the economy from regaining any of the ground it had lost in 2001. With few exceptions, these countries' imports followed a pattern similar to their exports. This trend can be attributed to the influence that exports have on economic activity in these countries and to the importance of their maquila sectors.

36. In the Caribbean Basin countries, tourism, another important source of foreign exchange earnings, showed only feeble signs of recovery from the shocks generated by the slowdown in the United States economy and the terrorist attacks of 11 September 2001. Figures for the early months of the year pointed to flat growth or further reductions both in tourist arrivals and in tourism earnings. The few positive signs included an increase in cruise ship arrivals for Belize, following agreements signed with a number of cruise lines, and more stopover arrivals in Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines in the first quarter and in Saint Lucia in the third.

37. The decrease in the import levels of Argentina (-56 per cent) and Brazil drove down the exports of all the Southern Common Market member countries except Brazil. Uruguay, which was hit the hardest, posted a double-digit drop. By contrast, among the Andean countries, the export volumes of the extractive industries of Peru increased, while Ecuador and Venezuela benefited from higher crude oil prices. The trend in the trade balances of these last two countries continued in opposite directions, with increases being recorded both in Venezuela's surplus and in Ecuador's hefty deficit. These results reflected a 30 per cent drop in Venezuelan imports, which was caused by the economic recession in that country and the devaluation of the bolivar, and an upswing of over 20 per cent in Ecuador's imports due to the ongoing construction of a pipeline to transport heavy crude oil and the continuing appreciation of its currency in real terms.

The external debt showed no increase in 2002

38. Latin America's gross external debt exhibited a nominal decline of 0.4 per cent in 2002, which brought it to US$ 725 billion. In a year during which the countries of the region had difficulty gaining access to external financing, most of them registered very small increases or nominal decreases in their external liabilities. Very few countries engaged in additional net borrowing. Among those with the biggest increases were Ecuador (10 per cent), owing to the expansion of private debt, and Uruguay (19 per cent), which undertook new commitments with multilateral institutions.

39. More than half of the Latin American and Caribbean countries — generally those whose economies are more open than the regional average — kept their two traditional debt burden indicators within a moderate range. In contrast, Bolivia, Brazil and Peru, which were among the most heavily indebted nations, had an external debt/GDP ratio of close to 50 per cent and a debt/exports ratio of around 300 per cent. Even so, it is encouraging to note that this indicator has been steadily improving in Brazil and Peru since 1999. In Ecuador and Uruguay, however, both indicators have deteriorated.

III. Macroeconomic policy

40. The year 2002 saw a further loss of degrees of freedom in fiscal and monetary policy management in most of the economies of the region. The manoeuvring room available to fiscal policy makers had been declining over the preceding five years as the fiscal deficit grew, reaching 3.2 per cent of regional GDP in 2001. Given the tighter external financial environment, Governments were obliged to adopt more restrictive fiscal positions in order to build up their policies' credibility and to raise domestic interest rates in order to counter the pressure exerted on their currencies.

41. These conditions brought the issue of the public debt and its sustainability to the forefront once again. The volume of debt had expanded owing to the growth of the fiscal deficit since the outbreak of the Asian crisis and this, in conjunction with the economic slowdown, drove up the public debt/GDP coefficient. The problem was exacerbated by the developments in monetary and exchange-rate policy triggered by interest-rate hikes (which made it more costly to service domestic debt) and currency depreciations (which had the effect of increasing foreign-currency debts when expressed in the local currency). The main channel of transmission for financial contagion, however, was investor behaviour, which gave rise to a self-fulfilling prophecy. Indeed, investors ignored such circumstances as, for example, the fact that two countries with a high public debt/GDP ratio (Ecuador and Brazil) posted large primary surpluses, which clearly signalled the major effort being made by these nations to meet their obligations.

Fiscal policy tended to take a passive approach

42. In most cases, fiscal expenditure was not used to buoy economic activity in the face of weak revenues. In some cases, this was because spending had already been used for that purpose in previous years and it would have been risky to continue to do so; in others, it was because fiscal policy management capacity had not been reinforced during earlier years when the economy was growing more rapidly. In addition, fiscal management capacity was further eroded by the increase in the public debt burden.

43. Revenues were down in most of the South American countries and in all the economies that were in recession. The decrease was especially steep in Argentina and Uruguay, where it amounted to around 20 per cent in real terms. Revenues were higher, however, in approximately half the countries of the region, especially the Central American and Caribbean countries. In a number of oil-exporting countries, the increase was attributable to higher crude oil prices, while in other countries (including the Dominican Republic, Guatemala and Nicaragua) it was associated with tax reforms. Argentina, Colombia, Uruguay and Venezuela also took steps to improve tax collection and counteract the deterioration of the fiscal situation.

44. Fiscal expenditure contracted in many countries, either because of the pressures generated by the difficult economic situation (as in Argentina, Paraguay, Uruguay and Venezuela) or as part of the implementation of medium-term stabilization programmes within a context of moderate economic growth (as in the Central American countries and Panama). In many instances public investment was the adjustment variable, as it occurred in Honduras, Nicaragua, Panama, Peru, Paraguay, and Trinidad and Tobago. In other countries — Barbados, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador and Jamaica — expenditure levels were either maintained or raised.

45. As the net effect of these trends in revenues and expenditure, the public sector balance — a deficit equivalent to 3.4 per cent of regional GDP — was largely unchanged. This figure conceals sharp differences across countries, however. The contrasts are illustrated by the results for the region's three largest economies: Argentina's deficit shrank from 3.1 per cent of GDP in 2001 to 1.4 per cent in 2002; Mexico's increased slightly, from 0.7 to 1.2 per cent; and Brazil's grew from 1.4 to 4.7 per cent. Fiscal deficits, which were an across-the-board phenomenon, narrowed in half of the countries and widened in the other half.

46. The main source of financing to cover the South American countries' deficits was the domestic financial market. Some countries, such as Argentina and Brazil, had trouble obtaining funds from this source, however. The impending elections made it difficult to refinance domestic debt in Brazil, which consequently undertook sovereign bond issues when the opportunity arose. This approach was also used by Chile, Colombia, Jamaica, Mexico, Peru, Uruguay and several Central American and Caribbean countries, while others chose to borrow from international financial institutions.

Exchange-rate pressures and their influence on monetary policy

47. As a result of the financial disturbances, many countries experienced significant currency depreciation, which forced the authorities to implement contractionary monetary policies to defend their currencies and stave off inflation. Only Chile, Colombia, Mexico and Peru were in a position to adopt more independent and more countercyclical monetary policies. Their effectiveness was impaired, however, by the fact that financing terms for the private sector failed to improve in many cases.

48. The economic crises besetting Argentina, Uruguay and Venezuela forced those countries to switch over to a currency float, with the result that their currencies depreciated sharply in both nominal and real terms in relation to the dollar, the euro and the currencies of other countries outside the region. The abolition of Argentina's convertibility regime triggered a steep real depreciation of the Argentine peso in the first half of the year, both against the dollar and against the currencies of its main trading partners. Subsequently, however, the exchange rate regained some of the ground it had lost. As a result of financial turmoil in Brazil, the Brazilian real depreciated against the dollar in real terms, losing one third of its value by the end of the year. The Venezuelan bolivar's depreciation amounted to nearly one fourth, on average, in the final quarter.

49. The magnitude of these depreciations largely determined the movements observed in the effective exchange rates (with respect to all trading partners) of most of the Latin American countries, whose currencies depreciated to varying degrees

against the dollar and the euro, but appreciated against the currencies of their trading partners in the region. This effect was especially pronounced in the South American countries (particularly Bolivia, Brazil, Chile and Paraguay), which have strong trade ties with the economies hardest hit by depreciation.

50. Guatemala and Trinidad and Tobago were the only non-dollarized economies to experience a real appreciation of their currencies against the dollar, thanks to strong capital inflows. Two of the region's three dollarized economies — El Salvador and Panama — remained on a low inflation path, which accounted for the stability of both their effective exchange rates and their bilateral rates of exchange against the dollar. In Ecuador, however, domestic inflation resulted in a loss of exchange-rate competitiveness of about 7 per cent against the dollar and 10 per cent overall against the currencies of its trading partners.

51. In most of the countries, monetary policy was shaped by changes in exchange-rate parities. This reduced the countries' capacity to use monetary policy as a countercyclical instrument in a context of sluggish productive activity. This situation was especially critical in those countries — like Venezuela and the members of MERCOSUR — which had come under strong exchange-rate pressure and had had to use significant hikes in deposit interest rates to shore up their currencies and to try to avert excessive depreciations that could trigger inflation and jeopardize their financial systems. Brazil was unable to maintain the policy of progressive interest-rate reductions which it had maintained until mid-2002 in an effort to foster economic recovery. Argentina applied a combination of strong monetary expansion and high interest rates, especially in the first half of 2002. Interest rates subsided in the second half of the year, when the peso began to appreciate, but credit stayed flat as a result of the banking crisis.

52. Countries where domestic interest rates dropped included those with dollarized economies (Ecuador, El Salvador and Panama), which benefited from the fall in international interest rates, and a small group of countries that had some leeway to implement countercyclical monetary policies. For example, Chile, Colombia and Peru kept inflation under control, at least for part of the year, while Mexico suffered only minor financial contagion from Argentina and Brazil.

53. The net supply of credit remained low in a significant number of countries owing to the greater caution exercised by local banks. Interest rate spreads stayed high and even increased in some countries, such as Argentina, Aruba, the Bahamas, Barbados, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, Guyana, Haiti, Nicaragua, Panama, Paraguay and Uruguay. Declines in deposit rates were not matched by a proportional fall in lending rates, which suggests that the commercial banking system was following a conservative policy in view of the uncertainty arising from the external economic environment and, in some cases, also the domestic one. Thus, the cost of credit was still very high, restricting the availability of financing for production, especially in the case of small and medium-sized enterprises.

IV. Domestic economic performance

54. Economic activity contracted by 0.6 per cent. This rounded off five years of economic stagnation in the region, whose per capita GDP fell below the figure recorded in 1997. The drop in economic activity was compounded by a decline in

employment, which pushed the unemployment rate up to a record high. At the same time, slack domestic demand kept inflation in check (although the rate was higher than in 2001), thus helping to moderate the loss of purchasing power.

Downturns in investment and regional GDP

55. While the decrease in the region's per capita GDP for the second year running was due in part to the sharp decline in economic activity in Argentina, Uruguay and Venezuela, virtually all countries posted sluggish growth rates (of under 2 per cent in the vast majority of cases).

56. This situation was primarily the result of adverse international economic conditions, which reduced the volume of trade, the prices of non-oil exports and capital movements. These factors combined with a number of domestic factors that restrained growth in most countries, including tight monetary policies, flat domestic credit, fiscal problems, high levels of public and private debt, speculative pressures that affected interest rates, high rates of unemployment and underemployment and, in several countries, social and political disturbances. Some countries were also troubled by adverse weather conditions. On the other hand, there were some positive domestic situations related to the exploitation of natural resources, a slight recovery in domestic demand and success in solving specific problems, such as electricity rationing in Brazil.

57. The influence of these factors varied from one country to another. One group of countries was hit hardest by economic trends in the United States, where demand for imports lost momentum in the biennium 2001-2002. The Dominican Republic, Haiti, Mexico, Panama and the Central American Common Market countries were in this category. The Mexican economy grew by 0.9 per cent, which translated into a further decline in per capita GDP. The listlessness of the Mexican market also had adverse effects on the Central American countries, where the weakness of United States demand was compounded by the severe crisis that continued to plague the coffee industry, which had serious repercussions for agricultural production and employment. Together, these factors led to a small downturn in per capita output, except in El Salvador and Costa Rica, where per capita GDP rose by about half a percentage point. In general, growth in the Caribbean countries was weak, owing in many cases to the tourism industry's failure to recover fully from the downswing it had suffered in 2001 and, in some cases, to climatic phenomena, such as floods in Jamaica and poor weather conditions in Barbados and Cuba.

58. Other countries had high levels of domestic and external debt, which made them particularly vulnerable to the toughening of international borrowing conditions and to speculative attacks. This category included the four countries members of the Southern Common Market. In Argentina, the steep decline in output that began in mid-2001 continued into the first quarter of 2002, but stopped and began to reverse itself in the second. However, for the year as a whole Argentina's GDP contracted by 11 per cent, largely reflecting the statistical effect of the collapse in output in the second half of 2001. The Argentine crisis spread to Uruguay and Paraguay, in particular, by a number of means. Those countries' GDP shrank by 10.5 per cent and 3 per cent, respectively. Brazil was vulnerable to financial disturbances, which led to a rise in interest rates, though output nevertheless grew by 1.5 per cent. This group of countries also includes Bolivia, which was the Andean country worst affected by the crisis in the MERCOSUR bloc.

59. Chile was particularly affected by an unrelenting downward trend in its terms of trade. This deterioration, which had persisted ever since the Asian crisis, resulted in a cumulative decline of 20 per cent over five years. That factor was largely to blame for the steady slowdown in the country's economic activity.

60. Lastly, in most of the Andean countries, domestic factors pushed external issues into a secondary role as determinants of economic performance. Ecuador continued to recover from the severe crisis of 1999, although per capita output stayed below its 1998 level. The Peruvian economy, which had been experiencing an upswing, grew by more than 5 per cent. This performance was attributable to the commencement of operations at the Antamina mine, among other factors. In contrast, Venezuela, in the throes of a severe political crisis, saw its GDP slip by nearly 9 per cent, despite the high price of its main export product, petroleum. Colombia was also unable to take full advantage of higher petroleum prices and its economy grew by only 1.6 per cent, even though the Government deployed a generally expansionary monetary policy.

61. Gross fixed investment contracted again by slightly over 6 per cent, which placed the regional investment rate at barely 18 percentage points of GDP (at 1995 prices), even lower than the rates recorded in the late 1980s and early 1990s. The steepest downturns were experienced in the South American countries, where, as tends to occur in a recession, fixed investment was the component of global demand that contracted the most. In this particular recession, limited export prospects combined with the higher cost of imported capital goods (inflated by the effect of devaluation), while scarce or expensive financing slowed down construction activity. Investment was also discouraged by political instability or conflict in some countries. Ecuador was the only country in the subregion to record significant growth in this respect, thanks to the construction of a new oil pipeline. In Central America and Mexico, investment ratios remained relatively unchanged.

62. The downturn in investment took place despite an increase in national saving, which was matched by a contraction in public and private consumption. The increase in national saving was offset by a decline in external saving, reflected in a narrowing of the balance-of-payments current-account deficit from 2.7 per cent of GDP in 2001 to about 1 per cent in 2002.

63. Since most countries began to experience an economic upturn in the second quarter of 2002, the region as a whole can be expected to grow in 2003, though by only about 2 per cent, this should translate into a slightly positive variation in per capita growth. This projection is based on an improvement in the situation of external trade and financing conditions. However, it remains subject to a great deal of uncertainty with respect to the economic and political factors on which it depends. Economic factors include, primarily, the price of oil and the growth prospects of the main industrialized countries, which are of decisive importance for international trade. Political factors include the effects of the conflict in the Middle East and the political problems facing a number of countries in the region.

64. With these caveats, it is expected that, by the end of 2003, few countries will find that their situation has worsened since 2002. This projection varies from one country to another, however. The biggest improvement should take place in Argentina, which is expected to post a growth rate of 4 per cent. However, it will be some time before this recovery is felt in Argentina's neighbours, Paraguay and Uruguay. Growth rates should tend to converge in the rest of South America, since it

is probable that many countries will experience faster growth — albeit to only a slight degree in some cases, such as those of Brazil and Colombia — and that the economies of Peru and Ecuador will lose momentum. Only Venezuela appears likely to suffer an even more drastic fall in GDP, which could be as steep as 10 per cent. Notwithstanding the sluggishness of economic recovery in the United States, the economies of Mexico and the Central American countries will probably grow by 2 to 2.5 per cent, and the Caribbean countries could experience a modest upturn.

Higher but still moderate inflation in the region

65. Inflation for the region as a whole in 2002, measured by the consumer price index, moved up after eight years of steady decline, reaching 12.2 per cent; this is twice the rate recorded in 2001. Wholesale prices rose even more sharply (as was to be expected in a context of widespread devaluation), posting an annual rate of 29 per cent.

66. The upsurge in inflation essentially reflected those devaluations, which in some countries were quite severe. Devaluations are to blame for the inflation rates of 41, 31 and 26 per cent posted in Argentina, Venezuela and Uruguay, respectively. In other countries, inflation did not reach these orders of magnitude, but significant currency devaluations were nonetheless observed, especially in the second half of 2002, and were reflected in higher inflation rates towards the end of the year. Despite these developments, the increase in region-wide inflation did not seem to signal a trend; rather, it represented the region's response to an exchange-rate shock that was gradually absorbed without giving rise to sustained inflationary processes. Accordingly, in almost every case price hikes were much more modest than the devaluations that caused them — which impacted more significantly on real exchange rates — evincing the moderating effect that low growth or recession has on inflation.

67. Among the countries with the sharpest price hikes, Argentina experienced a powerful resurgence in inflation, after a decade of stability, when the drastic change in its exchange-rate regime caused the currency to lose nearly three fourths of its value. As a result of the deep recession and high unemployment, nominal wages were not significantly adjusted to offset the sharp increase in prices. This, together with the exchange rate's stability in the second half of the year, helped to slow inflation after its initial sharp upsurge.

68. In Venezuela, after having declined steadily for five years, inflation shot up as a result of the abandonment of the exchange-band system, which led to a sharp devaluation in the first part of the year. In Uruguay, the sudden rise in inflation was due to the steep devaluation of the currency, especially after the currency band system was discarded and replaced with a floating rate. The country's severe recession, combined with the problems caused by the financial crisis, the credit squeeze and the freezing of deposits in some institutions, softened the impact of the devaluation.

69. Brazil's 2002 inflation rate was 12.5 per cent, compared to 7.7 per cent the year before. The upsurge occurred near the end of the year as a result of the devaluation recorded between May and October. It was nonetheless kept from speeding up even further by persistently sluggish economic growth and a tight monetary policy. In Paraguay, consumer prices rose by almost 15 per cent in 2002 as a result of devaluation, which intensified beginning in the third quarter. In Haiti and

the Dominican Republic, inflation sped up as their currency devaluations sharpened in the final quarter.

70. In contrast to these cases, inflation in the other countries of the region either decreased or rose very slightly. Noteworthy in this regard were the sharp drop in inflation in Ecuador and the low rates that continued to be posted in Bolivia, Chile, Nicaragua and Peru, even though these four countries' exchange rates came under some pressure.

Deterioration in the labour market

71. The labour market turned in a weak performance in the context of a shrinking regional economy. The main labour trends were a steep decline in the rate of employment, a sharp rise in unemployment, the expansion of informal employment and sluggish job creation in small and medium-sized firms. As a result, many Latin Americans saw their living conditions take a turn for the worse in 2002. At the same time, real wages reflected patterns in rates of inflation and did not greatly diverge from labour productivity trends.

72. After dropping sharply in 2001, the rate of employment declined again in 2002, from 53.1 to 52.8 per cent, owing to the first negative rate of economic growth recorded in the region since 1983. Given that the rate of labour force participation rose slightly, regional unemployment climbed from 8.4 to 8.9 per cent, the highest figure recorded since comparable measurements became available. This deterioration in employment and unemployment rates was seen in nearly all the countries of the region, although it was worst by far in Argentina, Uruguay and Venezuela owing to those countries' severe economic crises.

73. The heavy downturn in the employment rate attested to the close correlation between economic growth and job creation, which has been a feature of labour market trends in recent years. Prior developments had suggested that employment would perform even more poorly in 2002 than it actually did. In many countries, corporate demand for labour, reflected in the generation of wage employment, was even weaker than the employment rate indicates. This slack demand was partly offset by the expansion of informal employment, mainly self-employment, as households responded to the pressing need to generate income.

74. Because the adjustment of nominal wages on the basis of past inflation was still a common practice, real wages in the formal sector were determined to a great extent by year-on-year inflation. This produced substantial declines in countries that experienced surges in inflation and small rises in countries where inflation subsided. Accordingly, variations in real wages in the formal sector ranged from -14 per cent in Argentina to over 4 per cent in Colombia, Costa Rica, Nicaragua and Peru. Depending on the method of calculation used, the region-wide variation in real wages, based on information from 12 countries, was either a 1.8 per cent increase (median) or a 1.6 per cent decline (weighted average).

75. In 2002 an inverse relationship was clearly visible between year-on-year inflation and economic growth. In keeping with these two trends, real wages grew faster in countries with higher rates of economic growth. Given that in many countries the bulk of the increase in employment was due to the expansion of activity in low-productivity sectors (for reasons of household subsistence), a calculation of changes in average labour productivity based on the variation in the

number of wage earners alone gives a positive correlation between labour productivity and real wages. In fact, real wages rose in countries that recorded an increase in the apparent productivity of wage earners and declined in the other countries. Thus, although real wages were strongly affected by the rate of inflation, they did not diverge much from productivity trends.

Annex

Latin America and the Caribbean: total gross domestic product

(Percentages, at 1995 prices)

	Annual growth rates											
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002[a]*
Latin America and the Caribbean	**3.3**	**2.8**	**3.3**	**5.2**	**1.1**	**3.7**	**5.1**	**2.2**	**0.5**	**3.8**	**0.3**	**-0.6**
Latin America and the Caribbean (except Brazil)	4.7	4.7	2.6	4.5	-0.7	4.5	6.4	3.5	0.2	3.6	-0.3	-1.8
Subtotal (20 countries)	**3.3**	**2.8**	**3.4**	**5.2**	**1.1**	**3.8**	**5.2**	**2.2**	**0.5**	**3.8**	**0.3**	**-0.6**
Subtotal (20 countries; Brazil not included)	**4.8**	**4.7**	**2.7**	**4.6**	**-0.7**	**4.6**	**6.5**	**3.5**	**0.2**	**3.6**	**-0.4**	**-1.9**
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.8	-3.4	-0.8	-4.4	-11.0
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.9	5.0	0.3	2.3	1.3	2.0
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.1	0.1	1.0	4.0	1.5	1.5
Chile	7.3	10.8	6.9	5.0	9.0	6.9	6.8	3.3	-0.7	4.4	2.8	2.0
Colombia	1.8	3.6	4.4	5.9	4.9	1.9	3.3	0.8	-3.8	2.2	1.4	1.6
Costa Rica	1.6	8.8	7.1	4.6	3.9	0.8	5.4	8.3	8.0	2.2	1.0	2.8
Cuba	-12.1	-13.8	-16.0	2.0	3.4	8.7	3.3	1.3	6.8	5.3	2.5	1.4
Dominican Republic	0.9	8.0	3.0	4.7	4.3	7.2	8.2	7.4	7.8	7.3	2.7	4.0
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-7.9	2.3	6.0	3.4
El Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.8	3.4	2.1	1.9	2.3
Guatemala[a]	3.7	4.9	4.0	4.1	5.0	3.0	4.4	5.1	3.9	3.4	2.4	1.9
Haiti	0.2	-5.5	-8.0	-17.6	9.5	5.6	3.2	2.9	2.9	1.9	-0.7	-1.5
Honduras	2.7	5.8	7.1	-1.9	3.7	3.7	4.9	3.3	-1.5	4.8	2.7	2.0
Mexico	4.2	3.7	1.8	4.5	-6.2	5.4	6.8	5.0	3.7	6.8	-0.4	0.9
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	7.4	6.4	3.0	1.0
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.6	3.5	2.6	0.4	0.4
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	-0.1	-0.6	2.4	-3.0
Peru	2.7	-0.4	4.8	12.7	8.6	2.5	6.8	-0.5	0.9	3.0	0.2	5.2
Uruguay	3.7	8.3	3.5	7.0	-2.3	5.0	5.4	4.4	-3.4	-1.9	-3.4	-10.5
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	7.4	0.7	-5.8	3.8	2.9	-8.8
Subtotal, Caribbean	**1.6**	**0.6**	**0.9**	**3.1**	**2.7**	**2.6**	**2.0**	**3.6**	**2.8**	**3.5**	**1.8**	**1.9**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	5.0	4.9	2.6	4.3	0.0
Barbados	-3.8	-6.8	1.1	4.4	1.9	2.5	2.6	4.0	3.0	3.1	-2.2	-0.4
Belize	3.2	9.0	4.3	1.5	3.7	1.3	4.4	2.0	6.0	10.5	4.7	3.7
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.2	3.1	1.3	0.7	-5.2	-6.0
Grenada	3.7	1.0	-1.1	3.4	3.1	3.0	4.3	7.6	7.5	6.5	-3.3	3.0
Guyana	8.9	9.1	11.4	9.4	3.8	7.4	6.8	-2.2	5.0	-2.3	2.3	2.0

	Annual growth rates											
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002[a]*
Jamaica	0.5	2.7	2.2	1.6	2.2	-0.1	-1.8	-0.8	0.6	1.0	1.8	2.0
Saint Kitts and Nevis	2.5	3.2	5.2	5.5	3.2	5.8	7.2	1.1	3.5	5.0	2.0	-2.5
Saint Vincent and the Grenadines	1.5	6.9	2.0	-2.3	7.8	1.2	3.5	5.8	3.6	1.8	0.3	4.0
Saint Lucia	-0.4	7.5	-1.3	4.6	2.1	0.8	-0.3	3.0	2.8	0.3	-5.0	1.0
Suriname	3.5	-2.0	-4.1	-0.1	0.0	5.3	3.3	2.9	-3.5	-1.2	...	...
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.2	4.4	4.0	7.8	4.4	6.1	3.3	2.7

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

Note: Where relevant, totals and subtotals do not include those countries for which information has not been included.

[a] Preliminary estimates.

United Nations E/2003/20

Economic and Social Council

Distr.: General
9 May 2003

Original: English

Substantive session
30 June-25 July 2003
Item 10 of the provisional agenda*
Regional cooperation

Summary of the survey of economic and social developments in the ESCWA region, 2002-2003

Summary

In 2002, gross domestic product (GDP) in the region of the Economic and Social Commission for Western Asia (ESCWA), excluding Iraq and the West Bank and Gaza Strip, grew by 1.88 per cent, even less than the meagre 2.46 per cent by which it had grown in 2001. The region's feeble economic performance in 2002 reflects a slowdown in the performance of the oil sector, low rates of economic activity throughout the world and the negative impact on the private sector of heightened political tensions in the region. While inflation rates remained low, developments in the labour market and with respect to employment remained unfavourable.

Institutional and policy reforms aimed at promoting trade and investment activities in member countries continued. However, the potential benefits of regional integration remained largely untapped. The share of intraregional trade in total exports from the ESCWA region stood at 7.5 per cent in the first half of 2002, barely changed from the same period in 2001. Foreign direct investment (FDI) inflows into the ESCWA region corresponded to only 0.16 of world FDI inflows and future prospects are not encouraging because of concerns over regional tensions.

Social problems in the ESCWA region have persisted. Unemployment among youth and women has reached alarming proportions in the region. More than one third of the population in the ESCWA region is aged less than 15 years, and the entry to the labour market of that segment of the population over the forthcoming 15 years will exacerbate current unemployment problems. Education policies have not responded to the needs of labour markets, and illiteracy rates are alarmingly high, reaching some 30 and 16 per cent for women and men, respectively, in 2000. Although nutrition is currently comparable with levels in developed countries, poverty continues to be a serious social problem in several parts of the region.

* E/2003/100.

03-35491 (E) 050603

Contents

		Page
I.	Aggregate economic performance	3
	A. Economic growth	3
	B. Oil prices and production in 2002	4
	C. The employment situation	5
	D. Inflation	5
II.	Monetary and fiscal developments	6
	A. Monetary developments	6
	B. Fiscal developments	6
	C. Financing for development	7
	D. Debt	7
III.	Trade and foreign direct investment	8
	A. Trade flows	9
	B. Intraregional trade	9
	C. Foreign direct investment	10
IV.	Social developments	10
	A. Employment problems	10
	B. Population dynamics	11
	C. Education policies	11
	D. Poverty and the gender gap	11
V.	Globalization and regional integration	12
	A. Globalization and the ESCWA member countries	12
	B. Interregional integration and the ESCWA member countries	13
	C. Intraregional Arab integration	13
VI.	Conclusions, outlook and policy recommendations	15
	A. Conclusions	15
	B. Outlook for 2003	15
	C. Policy recommendations	16

I. Aggregate economic performance

A. Economic growth

1. In 2002, gross domestic product (GDP) in the region of the Economic and Social Commission for Western Asia (ESCWA), excluding Iraq and the West Bank and Gaza Strip, grew by 1.88 per cent, even less than the meagre 2.46 per cent by which it had grown in 2001. On average, GDP growth rates in the ESCWA region have, since the early 1980s, been outstripped by population growth, a situation that remained unchanged in 2002. Per capita GDP decreased by an estimated 0.62 per cent, while the population is estimated to have grown by an average of 2.5 per cent. The growth performance of the ESCWA region was significantly below that of most other developing regions of the world, both in absolute and per capita terms. The region's feeble economic performance in 2002 reflects a slowdown in the performance of the oil sector, low rates of economic activity throughout the world and the negative impact on the private sector of heightened political tensions in the region.

Table
Real GDP and growth rates in the ESCWA region at constant 1995 prices, 2000-2003
(Millions of US dollars and percentages)

						Percentage change			
Country/area	*1999*	*2000*	*2001*	*2002[a]*	*2003[b]*	*2000*	*2001*	*2002[a]*	*2003[b]*
Bahrain	6 864.2	7 228.4	7 574.5	7 878.2	8 226.5	5.3	4.79	4.01	4.42
Kuwait	27 542.3	27 921.1	27 609.1	27 611.9	28 407.1	1.38	(1.12)	0.01	2.88
Oman	15 430.9	16 277.9	17 792.4	18 306.6	18 916.2	5.49	9.30	2.89	3.33
Qatar	13 155.0	13 918.0	14 866.0	15 514.2	16 665.3	5.80	6.81	4.36	7.42
Saudi Arabia	154 108.1	161 593.4	163 510.1	164 720.1	170 073.5	4.86	1.19	0.74	3.25
United Arab Emirates	51 997.8	58 383.8	60 135.3	62 240.1	65 613.5	12.28	3.00	3.50	5.42
GCC countries subtotal	**269 098.3**	**285 322.6**	**291 487.4**	**296 271.0**	**307 902.0**	**6.03**	**2.16**	**1.64**	**3.93**
Egypt	82 547.7	85 486.2	88 157.7	89 841.5	91 117.3	3.56	3.13	1.91	1.42
Jordan	7 530.3	7 847.6	8 175.3	8 503.1	8 842.4	4.21	4.18	4.01	3.99
Lebanon	12 341.3	12 341.3	12 526.4	12 778.2	13 033.7	0.00	1.50	2.01	2.00
Syrian Arab Republic	22 165.8	22 298.8	23 056.8	23 829.2	24 377.3	0.60	3.40	3.35	2.30
Yemen	5 332.8	5 568.7	5 757.2	5 987.5	6 197.6	4.42	3.38	4.00	3.51
More diversified economies subtotal	**129 917.9**	**133 542.6**	**137 673.4**	**140 939.5**	**143 568.3**	**2.79**	**3.09**	**2.37**	**1.87**
ESCWA region total	**399 016.2**	**418 865.2**	**429 160.8**	**437 210.5**	**451 470.3**	**4.97**	**2.46**	**1.88**	**3.26**

Source: ESCWA, based on national and international sources.
Note: ( ) indicates negative growth. GCC = Gulf Cooperation Council.
[a] ESCWA estimates.
[b] ESCWA projections.

2. Growth in the six States of the Gulf Cooperation Council (GCC)[1] declined from 2.16 per cent in 2001 to an estimated 1.64 per cent, and was therefore insubstantial when compared with the record growth of 6.03 per cent in 2000. Growth rates continued to vary substantially from State to State. In 2002, while Kuwait yet again had the lowest growth rate, namely an estimated 0 per cent, that represented an increase over the 1.2 per cent contraction in economic activity in 2001. Qatar had the highest growth rate, namely 4.36 per cent, and that represented a serious decline from the 2001 highest rate of 9.3 per cent realized by Oman.

3. The main factors influencing growth in the highly oil-dependent States of the Gulf Cooperation Council (GCC) in 2002 included low levels of oil production and a consequently modest level of oil revenue, despite the high price of oil in 2002. Increases in domestic liquidity, the low interest rates prevailing in 2002 and fairly high public spending levels led to strong performance in the non-oil sectors.

4. Overall, combined GDP growth in the more diversified economies[2] (excluding Iraq and the West Bank and Gaza Strip) slowed from an average 3.09 per cent in 2001 to an average 2.37 per cent in 2002, while remaining almost one percentage point above the average growth rate of GCC States.

5. Of the group of countries with more diversified economies, Jordan had the highest estimated growth rate of 4.01 per cent, while Egypt, with 1.91 per cent, had the lowest. While growth in the West Bank and Gaza Strip is likely to have again attained negative double-digit levels in 2002, no estimates were made in 2002 because there is a lack of data on the exceptional and deteriorating economic and human conditions prevailing in those areas.

6. Common factors influencing growth in this group of countries include the continuing weakness of world economic activity, low export demand and the low number of non-Arab tourist arrivals. However, intraregional tourism increased in 2002, benefiting the more diversified economies with the capacity to absorb tourism, including, in particular, Jordan, Lebanon and the Syrian Arab Republic.

7. While growth in the more diversified economies is generally more uniform than in GCC States, the economies, and therefore the factors influencing growth in that group of countries, are more diverse. In Egypt and Jordan, the fiscal stance was tight due to strained fiscal positions in these countries. Moreover, the increased requirement of the central Government for financing has led to some degree of crowding out of private borrowing, which, combined with reduced domestic credit and liquidity, has decreased private spending. However, the Syrian Arab Republic and Yemen saw an expansionary fiscal stance in 2002 in conjunction with the higher oil revenues of those countries, which contributed positively to growth. While Lebanon was negatively affected by high interest rates, a tight fiscal position and perceived unsustainable public finances, it managed to improve confidence and lower interest rate prospects as a result of the successful outcome of the Paris II donor conference in November 2002.

B. Oil prices and production in 2002

8. Developments in international oil markets and political tension are among the most important economic factors in growth in the ESCWA region. The only three ESCWA members that do not produce oil, namely Jordan, Lebanon and Palestine,

remain affected by the oil revenues of their neighbours, given the extensive economic ties in the region, workers' remittances, intraregional economic aid and other financial flows.

9. In recent years, oil prices have rebounded from the record low US$ 12.28 per barrel (/b) in December 1998. The average basket crude oil price of the Organization of Petroleum Exporting Countries (OPEC) for 2002 was $24.36/b, a small increase from the 2001 price of $23.12/b.

10. Oil production in the ESCWA region accounted for 25.6 per cent of the world total in 2002, and is estimated to have averaged 16.7 million barrels a day (Mb/d), representing a fall of 6.3 per cent from the 2001 level. Saudi Arabia alone, by far the largest oil producer in the region, decreased production by 3 per cent to 7.7 Mb/d. That cut in production was a consequence of OPEC production quota cuts that took effect at the beginning of the year. Of the oil-producing countries of the ESCWA region, only Yemen reported increased oil production in 2002.

11. Largely as a result of production cuts, total oil revenues are estimated to have decreased by 12.31 per cent from those of 2001 to $121.3 billion in 2002. Only Bahrain, the Syrian Arab Republic and Yemen are estimated to have increased their oil revenues in 2002. While Saudi Arabia remains the largest oil exporter in the region, its oil revenues are estimated to have decreased by 16.5 per cent to $52.6 billion in 2002.

C. The employment situation

12. In recent years, the slow rate of growth and the ensuing rise in unemployment, which are linked to structural and cyclical aspects of the regional economy, have been major causes for concern in the ESCWA region. The region has the highest number in the world of new entrants to the labour market per year, and persistent discrepancies between business requirements and labour market training exacerbate the situation. Current official figures for unemployment have reached high levels, often in double digits. When disguised unemployment, underemployment and despondency rates are factored in, official figures may well underestimate the unemployment situation, which is particularly severe among youth and women in the ESCWA region. Women make up a fraction of the work force and the majority of unemployed persons in ESCWA member countries. Policies to improve the employment situation have been formulated throughout the region, and such policies continued to be implemented in 2002. However, while most member countries agree on the importance of decreasing the high rate of unemployment among women, more could be done to that effect. Labour market conditions remained poor throughout the region in 2002, regardless of policies, largely because poor economic growth was coupled with continuing high population growth rates averaging around 2.5 per cent. New jobs were not created in sufficient numbers to meet the high number of new entrants to the labour force.

D. Inflation

13. The national currencies of GCC States are pegged to the United States dollar and, as a result, inflation rates in those countries have for many years been low. As the dollar depreciated in 2002, imports of non-United States origin became more

expensive. However, increased import prices had not yet affected general price levels in GCC States in 2002. Inflation rates in those countries thus remained low, ranging from a negative 0.7 per cent in Oman to 2.9 per cent in Kuwait. In the more diversified economies of the ESCWA region, inflationary pressures generally also remained low. The exceptions were in Lebanon, where inflation increased from 0 to 4 per cent in 2002, mainly because of the introduction of the new value-added tax (VAT), and in Yemen, where double-digit inflation levels persisted in 2002, fuelled by high domestic demand.

II. Monetary and fiscal developments

A. Monetary developments

14. In 2002, the economies of the ESCWA region were affected by the events of 11 September 2001, which had a negative impact on, in particular, the oil, export and tourism sectors, and placed pressure on the national currencies of some ESCWA member countries. However, those events motivated some holders of Arab capital to seek investment and business opportunities in the region rather than abroad, thereby increasing deposits in the banking systems of the region and stimulating activity in capital markets. The overall monetary environment in the ESCWA region remained stable in 2002.

15. During 2002, the money supply grew by 6.89 per cent: in 2001, the rate was 2.67 per cent. The overall money supply therefore rose to some $364.6 billion. As a result of the fixed exchange rate and currency stabilization policies adopted by ESCWA member countries, which continued to be pursued throughout 2002, the national currencies of those countries, with the exception of the Egyptian pound, remained stable against the dollar and other international currencies. In line with the observed growth in monetary expansion in 2002, the average inflation rate in the region rose slightly, while the average interest rate decreased from 7.34 per cent in 2001 to 6.55 per cent, thereby continuing the general trend that has prevailed for several years.

B. Fiscal developments

16. Largely as a result of declining oil and non-tax revenues, weak tax revenue growth, and shrinking capital expenditures, public finances in the region deteriorated during 2002, with revenue falling at rates exceeding the decline in spending. Fiscal deficits and indebtedness continued to grow, with increasing ratios when deflated by the region's GDP.

17. Government revenue in oil-producing countries was affected by the decline in oil revenue. In other countries of the ESCWA region, notwithstanding the reform of their tax systems, tax revenues did not achieve the desired growth. The combined results of those two considerations caused public revenue in the ESCWA region to shrink by 13.3 per cent in 2002, to $132.4 billion. Fiscal authorities tended to control public spending by lowering capital expenditure, but left current expenditure at high levels. Consolidated public spending figures for the region reveal a decline of 6.3 per cent from 2001, to $150.7 billion. The observed decrease in revenues, that has exceeded the decline in spending, has increased the budget deficits of ESCWA

member countries. Combined deficit figures for the region rose from some $8.7 billion in 2001 to $20.2 billion in 2002. When deflated by public spending, the deficit ratio increased sharply, from 5.4 per cent in 2001 to 13.4 per cent in 2002. Regional deficit-to-spending ratio is therefore high by international standards. Even when deflated by GDP, the deficit ratio has increased from 2.1 per cent in 2001 to 4.7 per cent in 2002.

C. Financing for development

18. The ESCWA member countries have been taking measures to strengthen and develop their financial sectors. Domestic reforms have been carried out and special focus placed on increasing dependence on market forces, strengthening organizational and supervisory frameworks and enhancing domestic competition and the mobilization of domestic savings. The financial sector in the ESCWA region is dominated by the banking system, which is considered the primary source of financing for development.

19. In line with the reform programmes adopted by ESCWA member countries, the banking sector has witnessed sustained growth in its overall activity since the early 1990s. In 2001-2002, total banking sector assets increased by 6.1 per cent to $520.0 billion, while customer deposits increased by 9.4 per cent to $350.7 billion. The resources mobilized by the banking sector therefore constituted 67.4 per cent of total assets in 2002. In the same year, the sector extended credit to the economies of ESCWA member countries to the value of some 74.4 per cent of customer deposits, to reach $257.2 billion. In 2002, the consolidated capital base of domestic banks grew by 14.4 per cent to $48.5 billion.

20. Notwithstanding positive developments in mutual savings and institutional investor institutions in the ESCWA region over the past few years, the overall situation of the market is still below desired levels on average when compared with developing countries. The relative importance of such institutions differs in the various ESCWA member countries.

21. Capital markets in the region have recorded significant growth since the mid-1990s. The number of listed companies on domestic capital markets rose from 1,645 in 2001 to 1,658 in 2002. As regards trading in the region's capital markets, the value of traded shares increased by 11.5 per cent in 2001-2002 to $60.5 billion. The number of traded shares grew by 17.9 per cent, to 28.9 million. The average share price index for the whole ESCWA region progressed from 830.06 points in 2001 to 925.97 points in 2002, an increase of 11.55 per cent. This clearly reflects greater demand by local and international investors for the shares of many listed companies on the regional markets.

D. Debt

22. Because fiscal deficits in several ESCWA member countries continued to be fuelled by excessive current spending and lower revenues, public debt in those countries has increased over the past few years. Debt ratios in some of those countries are considered extremely high by international standards, and in some cases external debt is growing faster than domestic debt.

23. Consolidated debt in eight countries, namely Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar and the Syrian Arab Republic, grew from some $294.5 billion in 2001 to $307.1 billion in 2002.

24. When deflated by GDP, the total debt ratio in several ESCWA member countries is high by international standards. The average debt ratio of seven ESCWA member countries, namely Bahrain, Egypt, Jordan, Kuwait, Lebanon, Qatar and the Syrian Arab Republic, declined from 86.38 per cent in 2001 to 83.89 per cent in 2002.

25. Debt servicing in six ESCWA member countries, namely Jordan, Kuwait, Lebanon, Egypt, Oman and Qatar, amounted to some $9.3 billion in 2002, compared with $10.6 billion in 2001, reflecting a decline in interest rates on public debt in some countries, and the restructuring of debt portfolios in others. The average debt service to revenues ratio in Egypt, Jordan, Kuwait, Lebanon and Qatar declined from 30.18 per cent in 2001 to 26.51 per cent in 2002. The average debt service to exports ratio for the five above-mentioned countries was some 78.40 per cent in 2002, against 87.84 per cent in 2001.

III. Trade and foreign direct investment

26. The recent slump in world economic growth and uncertainties over international security put constraints on economic activity relating to both international trade and foreign direct investment (FDI) in the region. Meanwhile, institutional and policy reforms aimed at promoting trade and investment in ESCWA member countries continued and began to show promising results in some of those countries. However, the potential benefits of regional integration remained largely unrealized. International trade in the Palestinian territories continued to fall in 2002, and is currently at a critical level. Internal closures and military incursions into the Palestinian territories hampered export and import activities and the efforts of the Palestinian Authority to facilitate trade.

27. In 2002, the total value of exports of ESCWA member countries was $179 billion, while the total value of imports was $142 billion. Of those exports, 85 per cent came from GCC member States, which also accounted for 72 per cent of all imports. Crude oil and other oil-related products continued to be the main products exported from the ESCWA region.

28 Given that the performance of oil-related economic sectors drives demand for imports in the ESCWA region, overall trade in the region was greatly influenced by developments in oil markets in 2002. Total exports from the region decreased by 4.8 per cent from 2001. Although in 2002 the average oil price stayed just above that of 2001, weak world economic growth and constraints placed on crude oil production by OPEC quotas resulted in a fall in total exports from the region and, in particular, from GCC member States, where the decrease amounted to 5.1 per cent. Weak world demand also affected exports from the more diversified economies, and exports from those countries dropped by 2.9 per cent in 2002 from their level in 2001.[3] Total imports into the ESCWA region decreased by 1.1 per cent in 2002: those destined for GCC member States decreased by 1.5 per cent, while those destined for the more diversified economies decreased by a modest 0.1 per cent.

A. Trade flows

29. The largest volume of exports from the ESCWA region in 2002 was to the developing Asian countries: in the first half of 2002, the period for which data were available, 35.2 per cent of such exports went to those countries. The most important origin of imports to the ESCWA region was the European Union: during the first half of 2002, 33.4 per cent of all such imports came from European Union member countries. The "eastward export-westward import" trend of the ESCWA region, which was established in the 1990s, thus continued in 2002, particularly in the GCC States. In the more diversified economies, the European Union is both the most important destination of export flows and the most important origin of import flows. In the first half of 2002, 28.7 per cent of those economies' exports went to the European Union, while 32.3 per cent of imports came from that source.

B. Intraregional trade

30. The share of intraregional trade in total exports from the ESCWA region did not change in 2002: in the first half of that year, the ratio stood at 7.5 per cent of total exports having been 7.4 per cent in the same period in 2001. In the first half of 2002, the contribution made by GCC States to intraregional trade was 76.8 per cent, a slight decrease from the 77.7 per cent of the corresponding period in 2001.

31. While intraregional markets accounted for a fraction of total trade, the more diversified economies are more dependent on such markets for their exports. Of the ESCWA member countries, Jordan was the most dependent on intraregional export markets: in the first half of 2002, 40.3 per cent of its exports went to other ESCWA member countries, with Iraq being the largest trading partner. Regional export markets were also important for Lebanon, with 35.6 per cent of its exports going to other ESCWA member countries in the first half of 2002. Of the GCC States, Oman was the most dependent on intraregional export markets: in the same period, 10.4 per cent of its exports went to fellow ESCWA member countries.

32. An evaluation of the patterns of the geographical concentration of intraregional trade using a new geographical concentration index for ESCWA member countries shows that, for Oman and Qatar, intraregional export destinations were limited in the first half of 2002. During the same period, the concentration of intraregional imports was relatively high in Bahrain, Egypt and Oman. The degree of intraregional concentration of export destinations was lower than that of import origins in Bahrain, Egypt, Jordan, Kuwait, Lebanon and Oman, while the opposite was the case in Qatar, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates.

33. The relative contribution of intraregional trade to the total net export position varies among ESCWA member countries. Intraregional trade contributed positively to net exports in Jordan, Lebanon, Saudi Arabia and the Syrian Arab Republic, while a negative contribution was made by such exports in Bahrain, Iraq, Kuwait, Oman, Qatar and Yemen during the first half of 2002. The contribution to the net export positions of Egypt and the United Arab Emirates was neutral. A similar pattern was seen during the same period in 2001 other than in Egypt, where the contribution made by intraregional trade to the country's net export position in 2001 was positive. For the ESCWA member countries with negative net export positions,

namely, Egypt, Jordan, Lebanon and the Syrian Arab Republic, the promotion of intraregional trade continued to be important, in order to improve trade balances.

C. Foreign direct investment

34. Inflows of FDI into the ESCWA region peaked in 1998, when they amounted to $6.7 billion, representing 1 per cent of total world FDI inflows. In 2001, the most recent year for which the data are available, FDI inflows to the ESCWA region totalled $1.1 billion, corresponding to 0.16 per cent of total world FDI inflows. Despite the efforts exerted by Governments in the ESCWA region, non-economic factors outweighed economic factors, and investors were in general more reluctant to take risks. Privatization schemes, institutional developments and policy reforms were put in place, particularly in Egypt, Jordan and Saudi Arabia. However, the prospects for FDI inflows are not encouraging: in 2002, concerns over regional tensions made investors extremely cautious.

IV. Social developments

35. In 2002, social problems persisted in the ESCWA region: member countries continued to grapple with poverty; the uneven distribution of income; the unbalanced provision of such basic social services as health and education; urbanization and population movements; and the limited participation of women in the development process. Despite commitment and concerted efforts to provide equal access to education for women and men, illiteracy remains high, especially among women, in many countries of the region. Unemployment is highest among youth, especially women, and the widest gender gaps in the world in labour force participation are to be found in the ESCWA region. In 2000, women represented 26 per cent of the labour force in the region.

A. Employment problems

36. Youth unemployment has reached alarming proportions throughout the region. Structural imbalances in the region have not been conducive to the creation of sufficient jobs to absorb the annual increase in the economically active population. In the few sectors where increases in production have been seen, they were not in employment-intensive economic activities.

37. The high unemployment rate of youth can be attributed to the slowdown in economic activity during the 1990s; the failure to match education and skills development to the evolving needs of the labour market; the low efficiency of public and private employment agencies; and the lack of programmes aimed specifically at youth employment. The negative trend is exacerbated by inappropriate legislation, the absence of clear gender-sensitive social policies and the absence of measures designed to meet the challenges and seize the opportunities afforded by globalization and the information revolution for achieving social equity and gender equality for sustainable development.

B. Population dynamics

38. The ESCWA region has a young population: more than one third of the region's population is aged less than 15 years, and this segment of the population will enter the labour force over the forthcoming 15 years.

39. However, fertility is declining throughout the region, particularly in Egypt and Lebanon. The total fertility rate in the region dropped from 6.05 live births per woman in 1980 to an average of 4.6 in 2000 and is expected to further decline to an average of 4.2 during the period from 2000 to 2005. That decline, combined with increased life expectancy, is expected in the future to end the trend towards an increasing youth population. In 2000, the percentage of the population aged 60 years and over was 5.6 per cent and is expected to increase to 8.9 per cent by 2025. At the regional level, life expectancy at birth between 2000 and 2005 is 61.2 years for women and 65.1 years for men.

40. With the exception of Iraq and Yemen, nutrition has improved in most ESCWA member countries. Notwithstanding the urban-rural divide at the country level, the overall standard of nutrition in the region, as measured in caloric intake per capita, is approaching that of developed countries.

C. Education policies

41. Further indicators of social development are education levels and illiteracy rates, especially among women and girls. While both have improved in most ESCWA member countries since the 1970s, illiteracy rates remain alarmingly high, particularly in the less developed and conflict-stricken countries. Adult illiteracy rates, especially among women, are relatively high in several countries in the ESCWA region and in 2000 reached some 30 per cent for women, compared with 16 per cent for men.

42. Education policies in the region are not responding to the demands of the labour market: they do not provide individuals with the quality of education needed for employment. With respect to vocational and technical education, particularly in the GCC States, the aim has been to promote the skills needed by the public rather than the private sector. Little emphasis has therefore been placed on entrepreneurial skills, know-how and technical applications of theories learned. As a result, there has been a decrease in basic illiteracy, combined with an increase in technical illiteracy as defined to fit the new era of technological development and globalization; a high rate of unemployment and underemployment, especially among new graduates and new entrants into the labour market; a lack of the skills crucial to joining and competing with a global labour force; and a decline in productivity.

D. Poverty and the gender gap

43. Poverty continues to be a serious social problem in several countries in the ESCWA region. During the period from 1984 to 1999, over 20 per cent of the populations of both Egypt and Yemen was living below the national poverty line. The wide gap in consumption between the poorest and richest segments of the populations of ESCWA member countries is another indicator for poverty in the region, and this is reflected in income distribution across the countries of the region.

44. Poverty has been exacerbated by the fact that public spending on social services as a percentage of GDP in ESCWA member countries has not increased over the past 10 years, and in some countries has even declined. A significant part of national expenditure is allocated to military expenditure owing to existing political instability in the region.

45. Socio-economic gender gaps persist in many countries. In a few, the continued low level of girls' education has serious negative implications for employment opportunities and income-generating activities. The political participation of Arab women remains very limited, even by the standards of other developing or least developed countries: in 2000, women comprised 3.4 per cent of parliamentary representatives. The number of women appointed to high-ranking government posts or decision-making positions continues to be among the lowest in the world.

V. Globalization and regional integration

A. Globalization and the ESCWA member countries

46. World trends towards globalization, electronic commerce (e-commerce) and the rise in the number of regional trade blocs means that ESCWA member countries, and the Arab world as a whole, must take the necessary action both to address the challenges and risks of an integrating world economy, and to seize the opportunities presented by globalization and regional integration. Positive steps have been made by some countries of the region, through increased awareness of and participation in multilateral trading agreements, bilateral interregional agreements, bilateral intraregional trading agreements, transport and trade facilitation, energy policy coordination, and promotion of the sectors most vital to the region's economies. However, many challenges remain before ESCWA member countries and the Arab world as a whole may maximize the benefits of globalization and regional integration.

47. Many countries in the Arab region are moving towards greater participation in the global economy. The main avenue towards globalization is membership in the multilateral rules-based trading system of the World Trade Organization (WTO). As of February 2003, WTO had 145 members, 75 per cent of which were developing countries. The Organization was established in 1995, at the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), of which original signatories in the Arab world included Bahrain (1993), Djibouti (1994), Egypt (1970), Kuwait (1963), Mauritania (1963), Morocco (1987), Qatar (1994), Tunisia (1990) and the United Arab Emirates (1994). Between 1995 and 2000, 11 Arab countries joined WTO. Seven of the 13 ESCWA members currently belong, namely Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar and the United Arab Emirates. Three ESCWA member countries have observer status and are in the process of accession, namely Lebanon, Saudi Arabia and Yemen. The ESCWA member countries are taking an increasingly active role in the multilateral trading system, both in terms of recent accessions and participation in the ministerial meetings. The Fourth WTO Ministerial Conference was held in 2001 in Qatar, an ESCWA member country. That Conference culminated in the Doha Agenda for Development. Implementation of the Doha Agenda for Development will give developing

countries, including Arab countries, the opportunity, for the first time, to incorporate their interests in the text of the WTO Agreement, seven years after it was ratified.

B. Interregional integration and the ESCWA member countries

48. Eleven countries in the southern Mediterranean region and the Palestinian Authority have implemented or are in the course of negotiating bilateral trading agreements with the European Union. Those countries include Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Syrian Arab Republic, Tunisia and Turkey. Cyprus and Malta are expected to become full members of the European Union in 2004. Bilateral Euro-Mediterranean Association agreements are concluded under the Euro-Mediterranean Partnership, launched by the Barcelona Declaration in 1995 in order to replace previous cooperation agreements with those countries, some of which dated back to the 1970s. The Barcelona Declaration is a European Union programme for promoting economic development in the southern Mediterranean region. It provides financial and technical support for Mediterranean partner countries undertaking the transition to free trade with the 15 European Union member States. The first generation of agreements consisted primarily of the European Union granting market access to the developing countries of the southern Mediterranean under the Generalized System of Preferences. Agricultural products were not included. The new generation of agreements also excludes agricultural products and requires reciprocal liberalization of merchandise trade in the Mediterranean partners' markets. The long-term goal of the Euro-Mediterranean Partnership is to establish a free trade area by 2010. That will require full trade liberalization between the Mediterranean partners. While those partners have been successful in negotiating European Union Association agreements, a great deal of progress remains to be made on regional integration if the 2010 target is to be met.

49. On 17 December 2001, Jordan and the United States began implementing a free trade agreement with their first round of tariff reductions. The two partners agreed to eliminate tariffs on merchandise trade between their countries over a 10-year transition period. Tariffs will be reduced in four stages: tariffs of less than 5 per cent *ad valorem* will be phased out within two years; those between 5 and 10 per cent will be phased out over four years; those between 10 and 20 per cent will be phased out over five years; and those which exceed 20 per cent will be eliminated over 10 years. The Agreement also requires the enforcement of existing labour laws in both countries and the establishment of a Joint Forum on Environmental Technical Cooperation in order to ensure enforcement of existing environmental regulations. Both countries have agreed to promote free e-commerce and to meet international standards for the protection of intellectual property rights. A mechanism for trade dispute settlement is included in the Agreement.

C. Intraregional Arab integration

50. The countries of the Arab region have worked towards regional unity ever since the League of Arab States was formed in 1945 by Egypt, Iraq, Lebanon, Saudi Arabia, the Syrian Arab Republic, Transjordan and Yemen. Other efforts towards regional cooperation include the Treaty for Joint Defense and Economic Cooperation (1950), the Convention for Facilitating Trade and Regulating Transit (1953), the Arab Economic Unity Agreement (1957), the Arab Common Market

(1964), the Gulf Cooperation Council (1981), the Arab Cooperation Council (1989) and the Arab Maghreb Union (1989). However, most of those regional agreements were neither implemented nor effectively enforced. The latest efforts aimed at Arab regional integration, undertaken since the late 1990s, have been more successful. Significant success has been realized by GCC in forming a customs union, and more serious moves to establish the Greater Arab Free Trade Area (GAFTA) have been made.

51. The idea of GAFTA, which was first introduced in 1981, was given new life in 1997 with increasing Arab interest in regional integration. Under GAFTA provisions, tariffs and similar charges and non-tariff barriers to intra-GAFTA trade in industrial goods will be reduced or eliminated over a 10-year period which began on 1 January 1998. By 2002, the 14 GAFTA member States had effectively reduced tariffs on intra-GAFTA industrial trade by 50 per cent. At a meeting of the Economic and Social Council of the League of Arab States in Cairo in February 2002, it was agreed to accelerate implementation of GAFTA from 2002 to 2005. The time schedule for liberalization includes a 60 per cent reduction in tariff barriers by 2003, 80 per cent reduction by 2004 and zero tariffs by 2005. In 2002, with the accession of Algeria, membership increased to 15.

52. The Council was formed in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. One of the goals of member States is to form an economic union which, by 2010, will employ a common currency. In 1988, GCC States took the first steps towards a customs union by agreeing to a standard band of external tariffs ranging from 4 to 20 per cent. In December 1992, the GCC Patent Office was formed in order to formulate patent regulations and related by-laws. In 2002, Governments agreed to apply a Common External Tariff of 5 per cent by January 2003. Bahrain and Saudi Arabia have successfully lowered their external tariffs, which previously ranged from 5 to 20 per cent and 5 to 12 per cent, respectively. Oman was given more time in which to lower its external tariffs, which ranged from 5 to 15 per cent. Kuwait, Qatar and the United Arab Emirates originally had external tariffs of 4 per cent, below the Common External Tariff. They have been given more time in which to raise their external tariff rates.

53. Progress has been made in linking electricity grids in the Arab region. Several stages have been implemented in the electricity linkage project agreed upon in 1992 by Turkey and the ESCWA member countries of Egypt, Iraq, Jordan and the Syrian Arab Republic, which were joined by Lebanon in 2000. Another project, in the GCC States, comprises three stages. The first links eastern Saudi Arabia with Bahrain, Kuwait and Qatar; the second links the Omani electricity grid with that of the United Arab Emirates, while the third stage will join together the two grids that were linked in the first two stages. Egypt and the Libyan Arab Jamahiriya have made progress towards finalizing the linkage between their electricity grids, and a Libyan and Tunisian linkage will soon be completed.

54. Air, land and maritime transport networks have developed substantially in the ESCWA region. On 10 May 2001, member countries adopted the Agreement on International Roads in the Arab Mashreq. Eleven members have signed and three have ratified the Agreement, which will improve the intraregional road network. The proposal includes a road network that exceeds 31,400 kilometres and will require high-quality specifications that conform to the road standards used in Europe. A high-quality regional road network will improve the flow of goods between ESCWA

member countries. Bahrain and Qatar have agreed to build a causeway connecting the two countries, and work on it will begin in 2003. Work was begun on the Agreement on International Railways in the Arab Mashreq in March 2002. Furthermore, Lebanon, Jordan and the Syrian Arab Republic have signed an agreement to open new airways between their countries that will cut travel times between the three countries, reduce transport costs and encourage intraregional trade and higher volumes of passengers.

VI. Conclusions, outlook and policy recommendations

A. Conclusions

55. Economic growth in the ESCWA region slowed to 1.88 per cent in 2002, down from an already meagre 2.46 per cent in 2001, and the per capita growth rate remained negative. Slow growth in 2002 is mainly attributed to a cut in oil production by the main oil exporters following the tightening by OPEC of production quotas; continued sluggish world economic activity; and the negative impact on private sector economic activity of heightened political tensions in the region.

56. Notwithstanding high oil prices, total oil revenues are estimated to have decreased in 2002 by 12.31 per cent from those of 2001, to $121.3 billion. While interest rates fell slightly in 2002 and exchange rates remained largely stable, fiscal positions deteriorated because revenue increases were outweighed by increases in public expenditure, fuelling already high levels of public debt in some member countries. The external sector of ESCWA member countries performed less well in 2002 than in 2001. Total and intraregional trade levels fell and FDI levels remained low. In contrast, capital markets and the banking sector continued to grow, further increasing the potential for financing for development in the ESCWA region.

57. While inflation rates remained low throughout the region in 2002, the low economic and high population growth contributed to continued labour market and unemployment problems in the region. Youth unemployment and unemployment among women are reaching alarming proportions. Education policies have not been responding to the needs of labour markets. Furthermore, illiteracy rates have remained alarmingly high, reaching some 30 per cent for women as against 16 per cent for men in 2000. A similar gender gap persisted in many other socio-economic areas in ESCWA member countries, and problems of increasing poverty persisted.

B. Outlook for 2003

58. Economic growth in the ESCWA region in 2003 will depend primarily on the political situation in the region, including the developments in Iraq and the Middle East peace process. That situation will affect the risk perceptions of private investors, public investments and developments in the petroleum sector. In early 2003, already high oil prices continued to rise, largely because of the continuing disruption of oil exports from Venezuela and the effect on oil prices of the situation in Iraq. The average OPEC basket crude price baseline on which growth projections for 2003 are based is set at $26/b. Oil revenues are expected to increase in 2003 as a result of likely OPEC production quota increases and high oil prices, while

investments are expected to drop significantly as a consequence of the political situation.

59. Negative secondary effects on economic activity throughout the region of the military conflict in Iraq have also been taken into account, and it is still important to stress the likelihood that growth projections will have to be revised downwards, especially for the more diversified economies, in the case of continued or increasing tensions of the region. With this caveat in mind, overall growth in the ESCWA region is projected to reach 3.26 per cent in 2003, with a slightly higher projected average for the GCC States of 3.93 per cent because of the expected strong performance of the oil sectors of those countries. Growth in the group of countries with more diversified economies is expected to reach 1.87 per cent. Given that the population growth rate is not expected to change in 2003, per capita growth rates are expected to be slightly positive in 2003.

60. Inflation rates are expected to remain generally low throughout the region in 2003, although the depreciation of the dollar vis-à-vis the euro may place slight upward pressure on imported goods prices. Inflation in Egypt may increase, following the depreciation in early 2003, when the Egyptian pound was allowed to float. The outlook for unemployment is negative, because the growth of the labour force continues to outstrip that of the economy. Largely for the same reasons, progress towards the Millennium Development Goal of poverty reduction is not expected in 2003. The fiscal situation of more diversified economies is also expected to deteriorate as well, while stronger oil revenues in GCC States may contribute to the lowering of fiscal deficits in that part of the ESCWA region. Banking and capital market activity is expected to be sluggish because of increased risk perceptions. Trade, including oil, is expected to increase moderately in 2003 because of the expected strong performance of oil sectors and the positive income effects on oil-exporting countries. At the same time, a considerable fall in intraregional trade activities and in FDI inflows is expected as a direct consequence of the conflict in Iraq.

C. Policy recommendations

61. **The recent poor growth in the ESCWA region indicates the torpidity of the rate of expansion in the existing productive capacity. The persistence of low rates over two decades, however, points to a much deeper problem with the institutional framework that does not allow for successive and vigorous expansions in capital accumulation. Without a fundamental change in the institutional structure that underpins the process by which resources are ploughed back into the region, therefore, the slow rate of capital accumulation may remain unaltered. Long-term security and a market-enhancing investment mechanism also remain central to encouraging higher growth in economies of the ESCWA region.**

62. **Growth rates continue to be more volatile in the ESCWA region than anywhere else in the world, because of the high dependence on international oil markets and political instability. Increasing diversification away from oil therefore continues to be recommended. Moreover, increased financial, capital and goods market integration within the ESCWA region could complement diversification efforts; even out sharp income fluctuations between the highly**

volatile oil-dependent economies and the more diversified economies of the region; and strengthen the resilience of the ESCWA region to future financial and real shocks. Moreover, regional integration in general would give the ESCWA region a common platform from which to meet the challenges of integrating into the world economy.

63. **The promotion of intraregional trade remains the key to success in diversifying the products exported from the region and stabilizing the external deficits of the group of ESCWA member countries with negative trade balances. In addition to the removal of tariff and non-tariff barriers to trade, and regulatory reforms of financial and capital markets, monetary stability and fiscal discipline are fundamental to the enhancement of integration in the ESCWA region. Macroeconomic policy cooperation between ESCWA member countries should be considered with a view to achieving that end.**

64. **The absence of integrated social policies in the ESCWA region has contributed to increasing levels of poverty and deprivation. In consequence, Governments must develop the capacity to undertake social impact assessments of macroeconomic policies and integrate social concerns and human rights into the formulation of macroeconomic policies. The importance of giving special weight to poverty and unemployment issues in the policy formulation process cannot be sufficiently emphasized.**

Notes

[1] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

[2] Egypt, Iraq, Jordan, Lebanon, Palestine, the Syrian Arab Republic and Yemen.

[3] While total net exports decreased by 16.8 per cent, the net export position of the ESCWA region remained positive for the fourth consecutive year.

United Nations A/58/75–E/2003/21

General Assembly
Economic and Social Council

Distr.: General
12 June 2003

Original: English

General Assembly
Fifty-eighth session
Item 105 of the preliminary list*
Permanent sovereignty of the Palestinian people in the Occupied Palestinian Territory, including East Jerusalem, and of the Arab population in the occupied Syrian Golan over their natural resources

Economic and Social Council
Substantive session of 2003
30 June-25 July 2003
Item 11 of the provisional agenda**
Economic and social repercussions of the Israeli occupation on the living conditions of the Palestinian people in the occupied Palestinian territory, including Jerusalem, and the Arab population in the occupied Syrian Golan

Report prepared by the Economic and Social Commission for Western Asia on the economic and social repercussions of the Israeli occupation on the living conditions of the Palestinian people in the occupied Palestinian territory, including Jerusalem, and of the Arab population in the occupied Syrian Golan

Note by the Secretary-General***

In its resolution 2002/31 of 25 July 2002, the Economic and Social Council requested the Secretary-General to submit to the General Assembly at its fifty-eighth session, through the Council, a report on the implementation of the resolution. The General Assembly, in its resolution 57/269 of 20 December 2002, also requested a report. The Secretary-General has the honour to transmit the report requested, which has been prepared by the Economic and Social Commission for Western Asia and is submitted in response to the two resolutions. A report on assistance to the Palestinian people, covering the period June 2002 to May 2003, is also being submitted to the General Assembly through the Economic and Social Council, as requested in resolution 57/147 of 16 December 2002. The annual report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East provides information, inter alia, on the socio-economic conditions of the registered population in the occupied Palestinian territory.[1]

* A/58/50/Rev.1 and Corr.1.

** E/2003/100.

*** As official sources were lacking for most of the information contained in the present report, a longer period for clearance was required for extensive consultations within the various United Nations entities at Headquarters and in the field. The report was therefore delayed two weeks for processing.

03-39666 (E) 080703

Report prepared by the Economic and Social Commission for Western Asia* on the economic and social repercussions of the Israeli occupation on the living conditions of the Palestinian people in the occupied Palestinian territory, including Jerusalem, and of the Arab population in the occupied Syrian Golan

Summary

The occupation of Palestinian territory by Israel continues to have a serious detrimental effect on all aspects of the living conditions of the Palestinian people.

The Israeli army has continued to resort to excessive use of force, arbitrary detention, house demolitions, increasingly severe mobility restrictions and closure policies, as well as the confiscation and bulldozing of productive Palestinian agricultural land.

The Palestinian economy continues to accumulate losses, currently equal to half of its annual gross domestic product. Unemployment has increased threefold, and poverty has risen among more than two thirds of the population.

Women and children bear a special and enduring burden resulting from the occupation. Palestinian children face exposure to mounting violence, and their access to educational opportunities and health facilities have been reduced to unacceptably low levels. Educational outcomes are consistently declining, as are nutritional standards and public health conditions.

As noted in previous reports, Israeli settlements in the occupied Palestinian territory remain one of the principal issues fuelling the conflict between the two peoples. The geographic distribution of Israeli settlements in the occupied Palestinian territory severely restricts the growth of the Palestinian communities.

The Israeli-occupied Syrian Golan Heights continues to witness settlement expansion beyond the 33 settlements already in place. Social services such as schooling, higher education and medical facilities remain insufficient for the Arab population in the Syrian Golan Heights.

* The Economic and Social Commission for Western Asia would like to acknowledge with appreciation the substantive contributions of the United Nations Children's Fund, the United Nations Conference on Trade and Development, the United Nations Population Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the Office of the United Nations High Commissioner for Human Rights, the World Health Organization and the Office of the United Nations Special Coordinator in the Occupied Territories to this report.

I. Introduction

1. In its resolution 2002/31 of 25 July 2002, the Economic and Social Council stressed, inter alia, the importance of reviving the Middle East peace process on the basis of Security Council resolutions 242 (1967) of 22 November 1967, 338 (1973) of 22 October 1973 and 425 (1978) of 19 March 1978, and the principle of land for peace as well as the compliance with the agreements reached between the Government of Israel and the Palestine Liberation Organization, the representative of the Palestinian people. The resolution reaffirmed the applicability of the Geneva Convention relative to the Protection of Civilian Persons in Time of War, of 12 August 1949, to the Occupied Palestinian Territory, including Jerusalem, and other Arab territories occupied by Israel since 1967. The resolution stressed the need to preserve the territorial integrity of all of the Occupied Palestinian Territory and to guarantee the freedom of movement of persons and goods in the territory, including the removal of restrictions on going into and from East Jerusalem, and the freedom of movement to and from the outside world. The Council reaffirmed the inalienable right of the Palestinian people and the Arab population of the occupied Syrian Golan to all their natural and economic resources and called upon Israel not to exploit, endanger or cause loss or depletion of those resources. It also reaffirmed that Israeli settlements in the Occupied Palestinian Territory, including Jerusalem and the occupied Syrian Golan, were illegal and an obstacle to economic and social development. The Council requested the Secretary-General to submit to the General Assembly, through the Council, a report on the implementation of the resolution.

2. In its resolution 57/269 of 20 December 2002, the General Assembly reaffirmed the inalienable rights of the Palestinian people and the population of the occupied Syrian Golan over their natural and economic resources, including land and water; and called upon Israel, the occupying Power, not to exploit, cause loss or depletion of or endanger the natural resources in the Occupied Palestinian Territory, including Jerusalem and the occupied Syrian Golan. In the resolution, the Assembly recognized the right of the Palestinian people to claim restitution as a result of any exploitation, loss or depletion of, or danger to, their natural resources, and expressed the hope that this issue would be dealt with in the framework of the final status negotiations between the Palestinian and Israeli sides. The Assembly requested the Secretary-General to submit a report to it at its fifty-eighth session.

3. On 30 April 2003, the Secretary-General warmly welcomed the formal presentation of the road map for Middle East peace, declaring that it gave the Israeli and Palestinian people a real chance to end their long and painful conflict, and thus a chance for all the people of that troubled region to establish, at last, a just and comprehensive peace. The Secretary-General expressed his belief that the road map's goal of two States, a secure and prosperous Israel and an independent, viable, sovereign and democratic Palestine, living side by side in peace and security, must be the focus of all energies and efforts.

4. It has been noted that humanitarian assistance is not the answer to the crisis in the occupied Palestinian territory. The crisis is fundamentally political, as observed by the United Nations Technical Assistance Mission following its visit in October 2002 to the Occupied Palestinian Territory: the crisis will continue to worsen unless political decisions are taken to lift closures, curfews and other restrictions on the civilian population. Durable and productive security cannot be achieved by violence

or the construction of walls and barricades. It depends on trust and respect between people.[2]

II. Occupied Palestinian Territory, including Jerusalem

Deaths and injuries

5. From the beginning of March 2002 until 7 May 2002, Israel endured an estimated 16 bombings, the large majority of which were suicide attacks. More than 100 persons were killed. On 29 March 2002 Israel launched Operation Defensive Shield. The operation included incursions into a number of Palestinian cities, including Jenin, which have resulted in numerous Palestinian civilian deaths (see A/ES-10/186). As the report of the Secretary-General prepared pursuant to General Assembly resolution ES-10/10 indicated, a total of 497 Palestinians were killed in the course of the Israeli army reoccupation of Palestinian area A from 1 March to 7 May 2002 and in the immediate aftermath.[3]

6. The Palestinian Ministry of Health reported 2,520 Palestinian deaths by occupation forces between 29 September 2000 and 24 September 2002. Israel reported 624 Israeli deaths from 27 September 2000 to 26 September 2002. Several thousand injuries have resulted on both sides. However, the Palestinian death rate has been at such a high level that it has directly affected the general Palestinian mortality rate, which has increased by about 2 per cent since 2001.

7. Israel continues to pursue a policy of extrajudicial killings of Palestinians suspected of involvement in armed attacks against Israelis. In 2002, there were 51 extrajudicial killings/attempts, resulting in the death of 66 suspected persons and 46 bystanders.

8. Many of the civilians killed have been children. Over 450 children have been killed in the conflict since September 2000. The Israeli army and settlers have killed 367 Palestinian children (under 18). However, Palestinian attacks on Israeli targets have killed 82 Israeli children.

9. Medical facilities and personnel administering to the wounded have been attacked. The Israeli army has killed 18 health workers and injured 370; and it has damaged 240 ambulances and destroyed 34.

Arbitrary arrests and detentions

10. The Israeli army's house-to-house searches have affected from 30 to 50 per cent of Palestinian homes in various areas of the occupied Palestinian territory, and between 12 and 36 per cent of households have reported the arrest of at least one family member. Mass arrests were conducted, as illustrated by the Friday, 29 March 2002 raid on Al-Bireh (West Bank), where the occupation army assembled all male residents aged 15 to 45 in a school yard. They forced the majority to remain in the school throughout the day and night, releasing some the next morning, but hauling others away in buses.

11. During the two major Israel army incursions into the occupied Palestinian territory, in February and in late March 2002, the number of Palestinians arrested

was 10,000. Some have been released, but about 4,000 persons remain in detention, including 38 women prisoners (A/57/207, para. 37). Prior to the launch of Operation Defensive Shield, 60 Palestinians had been held in administrative detention. According to B'Tselem, an Israeli non-governmental organization, as of January 2003, more than 1,000 Palestinians were being held in administrative detention.[4]

12. Israeli forces have also detained local staff of the United Nations. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) has been refused access to and information about its detained staff members. The United Nations Relief and Works Agency for Palestine Refugees in the Near East has also complained that its buildings have been used repeatedly as detention centres. On 9 April 2002, special Israeli forces and army units broke into the UNRWA Ramallah Men's Training Centre, arresting its dean and 104 others.

13. Children are affected by arbitrary detention, not only by being deprived of family members and their right to visit them in detention, but also as detainees and prisoners themselves. A total of 280 children have been detained. The Israeli army has confirmed that it prohibited Palestinian juvenile detainees at Ofer Camp from meeting their families and from continuing their studies.[5]

Population displacements

14. The destruction of Palestinian homes and the military siege and curfews on residential areas have had multiple effects on the population of the occupied Palestinian territory, including Jerusalem. Both those rendered homeless and those facing military threat in their place of residence have been obliged to seek refuge elsewhere. At the end of the 2002 incursions, between 23 and 37 per cent of the families housed other families as a result of life-threatening danger around the displaced family's home, demolition or confiscation of homes by the Israeli army, or being stranded and unable to reach home.

15. From late 2000 through 2002, Israeli measures have compelled some 70,000 Palestinians (1.3 per cent of the West Bank population, and 2.6 per cent in the Gaza Strip) to change their residence. Direct military activity has caused 60 per cent of the displacements. Those forced to endure long detentions and humiliation by the Israeli military at checkpoints have had to shift residences to ensure access to work or study. More than two thirds of the displaced persons expected the change to be temporary, which implies yet another displacement in the future. Statistics show a higher proportion of displaced males than females (15/20).

16. The military siege, closures and curfews also isolate residential areas for long periods. In certain areas, especially Al-Muwasi, in the southern part of the Gaza Strip, and in Al-Syafa, in northern Gaza, the siege has meant full isolation. Only local residents are allowed in and out, at the army's discretion. Construction materials are not allowed to enter, nor are medical personnel. Hundreds of families have been displaced as a result, and such population transfer appears to be the objective of military operations, extinguishing all aspects of normal life for Palestinians living near Israeli settlements.

Property destruction

17. In November 2001, the Committee against Torture concluded that Israeli policies of closure and house demolition may, in certain circumstances, amount to cruel, inhuman or degrading treatment or punishment, and called on Israel to desist from the practice (CAT/C/XVII/Concl.5, paras. (i) and (j)). The Israeli forces escalated their acts of forced eviction, seizure, demolition and closure of Palestinian structures throughout the occupied Palestinian territory in 2002 and 2003. During the period, Israeli forces demolished well over 1,275 Palestinian homes. UNRWA has reported that, between March and November 2002, the army destroyed 304 refugee homes in the West Bank, in addition to the approximately 600 refugee housing units destroyed in their assault on Jenin (April 2002).

18. Following the army incursions of spring 2002, between 31 and 87 per cent of Palestinian families in the Occupied Palestinian Territory reported considerable destruction to their neighbourhoods, and between 28 and 59 per cent reported exposure to shooting and/or destruction of their homes. In the single raid on Jenin refugee camp, the Israeli army completely destroyed some 600 homes with bombs and bulldozers, leaving an additional 200 homes unfit for habitation and 1,250 families (over 6,000 individuals) homeless, including a majority of children.

19. On 29 January 2003 in Rafah, the Israeli army shelled the Tal al-Sultan neighbourhood. The destroyed apartments had been newly built to house Palestinian families that army attacks had previously rendered homeless. The families were to take delivery of the new apartments on 1 February 2003.[6]

20. Such operations are accompanied by intensive fire, preventing the victims from salvaging their belongings. In most cases, the Israeli authorities do not warn the affected civilians in advance. Israel has escalated the destruction of Palestinian homes with explosives since early September 2002, following the policy of destroying the homes of Palestinians suspected of armed resistance.

21. During 2002, in occupied Jerusalem, Israeli authorities escalated the demolition of Palestinian houses by destroying more than 120 structures of different types. This practice has reached its highest level since 1987.[7]

22. In the Gaza Strip, a total of at least 2,424 Palestinian homes had been damaged by the end of 2002. The Israeli army has completely destroyed 704 homes, leaving 23,122 people homeless, including a majority of children. This preceded the army's destruction of 439 Palestinian homes in the north Gaza governorate in 2003, representing a sharp increase over the rate of destruction in 2001-2002.[8]

23. In addition to family homes (worth $66 million in 2002), the Israeli army has destroyed private assets in the form of buildings; equipment and inventory ($97 million); physical infrastructure ($88 million, of which $64 million were road networks); cultural heritage ($48 million); Palestinian Authority assets, including ministries and municipalities ($20 million); private and public cars ($6 million); and non-governmental organization and private social services ($56 million). Loss of institutional memory and equipment have made basic functions impossible, particularly with the Israeli army's destruction and confiscation of vital records, computers and software in the key Palestinian Authority ministries (Finance, Education and Interior). The army's destruction of water, electricity generation facilities and grids, solid waste disposal stations and road networks, and its

confiscation of equipment and machinery of private institutions alone have generated an estimated $360 million in losses in April 2002.[9]

Mobility restrictions and closure policies

24. Between 1 October 2000 and 31 December 2002, Israeli authorities closed the main Gaza crossing at Erez checkpoint completely for 362 days, and partially for 262 days. Erez industrial zone was closed for 67 days; Karni commercial crossing was completely closed for 143 days and partially for 41 days. Sofa was closed for 275.

25. In May 2002, Israel introduced a new feature to the pass system under which Palestinian residents need special permits from the Israeli Civil Administration to travel between Palestinian localities within the West Bank and the Gaza Strip. The new policy formally fragmented the West Bank into eight blocks, creating 64 Palestinian distinct enclaves, maintained by 46 permanent checkpoints and 126 roadblocks.

26. The Israeli Government has initiated the construction of physical barriers running through the West Bank to separate the Israeli and Palestinian populations, initially with over 100 kilometres of high concrete walls, fences, buffer zones, trenches and security watchtowers. According to the long-term plans, two walls will extend the entire 360-kilometre length of the West Bank.[10]

27. The construction is taking place in the most fertile and dense agricultural valley areas of the western Occupied Palestinian Territory. It has already severed farmers from their plots. In the Qalqilya governorate alone, the wall will stretch along the fields of 300 farmers, and 1,000 farmers will lose significant portions of land to the western side of the wall. The loss of wells will deprive the remaining accessible land of water needed to farm it, while the close proximity of Israeli armed guards will pose a threat to farmers cultivating what fields remain. As of December 2002, documentation of wall-related destruction of agricultural land and assets had been conducted in 53 communities in Jenin, Tulkarm and Qalqilya districts, an area containing an estimated population of 141,800. Direct damage to those communities from wall and barrier preparations and construction up to that time included the destruction of some 83,000 olive and other fruit trees, and 615 dunums of irrigated land, including greenhouses, 37 kilometres of water networks and 15 kilometres of agricultural roads. In addition, a total of 238,350 dunums of land (238.3 square kilometres) were being isolated between the Green Line and the Wall; 57 per cent of that area was cultivated land, planted mostly with olive trees and field crops.[11]

Israeli settlements

28. The geographic distribution of Israeli settlements in the Occupied Palestinian Territory continues to severely restrict the growth of Palestinian communities and is an obstacle to their economic and social development. The settlements have been condemned as illegal under numerous resolutions of the Security Council and the General Assembly.

29. Forty-five Israeli settlements are being expanded by 11,128 dunums; four of the settlements are new, and the new outposts (care vans) number 113, spread across the West Bank.

30. Israel contends that the expansion of settlements is a function of the existing population's "natural growth". This term has never been precisely defined. Successive Israeli Governments have strongly encouraged migration from Israel to the settlements by offering generous financial benefits and incentives. The current annual increase of 11 to 12 per cent in settler numbers far exceeds the 2 per cent population growth inside Israel (E/CN.4/2003/5/Add.1).

31. A critical factor affecting Palestinian life is the lavish allotment of land resources for settlement. Planning maps remain largely inaccessible to the public. However, available data indicate that the authorities have allotted 41.9 per cent of all the West Bank to settlements as building, planning and development zones.[12] For example, in the Migilot settlement in the Judean desert, Israeli planning authorities have allotted 700,000 dunums of land to its settler population of 900 (E/CN.5/2003/5/Add.1, para. 39).

32. The Israeli Government finances some 50 per cent of settlement costs in the Occupied Palestinian Territory and 25 per cent of housing inside the Green Line. Israeli illegal settlers in the Occupied Palestinian Territory, who recorded the highest per capita income of Israelis in the 1990s, receive $520 per capita in subsidies from the budgets publicly disclosed, while, in the communities of Arab citizens of Israel, the most disadvantaged individuals receive the equivalent of $235 in public benefits.[13]

33. In its 2002 budget, the Government of Israel appropriated $154 million for infrastructure, industrial investment grants, housing, agricultural programmes and educational subsidies for the settlements. For 2003, it is devoting 1.9 billion new sheqalim (NIS) ($452 million) from its budget for the settlements.[14]

34. It is reported that there are plans to construct five new settlements in Rimal Halutza, in Gaza near the Egyptian border. The location is planned to attract around 15,000 Israelis into an area of 80,000 Palestinian dunums, with implementation anticipated in 2004.[15]

35. Settler bypass roads also impose the demolition of structures and closure of over 150 metres of Palestinian lands to each side.[16] The bypass roads link Israeli settlements to each other and to Israel proper, and this easy access allows for attractive living conditions for settlers, thus facilitating the expansion and consolidation of settlements. The network divides the occupied Palestinian territory into areas separated and surrounded by military-controlled roads, cutting the Palestinian areas into a number of isolated homelands. That network, along with other planning restrictions, prevents the development of Palestinian towns and villages, exacerbates overcrowding, prevents Palestinian territorial contiguity and further disconnects Palestinian communities from each other. The network undermines the Palestinian economy by restricting movement and impeding commerce.

36. Settler actions against Palestinians include erecting roadblocks to disrupt normal movement, shooting at roof-top water tanks, burning cars, smashing windows, destroying crops and uprooting trees, and harassing merchants. Settlers have also attacked paramedics and fire fighters. Monitors recorded at least 156 cases of such attacks during the period 1 March to 30 November 2002. Settler violence in

the past year concentrated on preventing and confiscating the autumn olive harvest in the West Bank, the main source of livelihood for most rural Palestinians.

37. The confiscation of land and properties is a dominant feature of Israeli occupation and population transfer policy. The confiscated land area has reached well over 70 per cent of the entire West Bank; and in the Gaza Strip, roughly one third of the land. Settlements implanted near built-up Palestinian areas impose a 500-metre buffer zone, creating a planning pretext for removing Palestinian homes and buildings and confiscating a wide swath of land around the settlements, at the expense of the Palestinian owners.

38. By end February 2002, the army had destroyed 31,283 hectares of agricultural land and 485,665 trees in the Occupied Palestinian Territory, leaving 5,243 farmers without a livelihood.[17]

Water and environment

39. Palestinian entitlements to water include the aquifers of the West Bank and the Gaza Strip, in addition to their rightful share as riparians of the Jordan River. However, patterns of Israeli military and settler land use coincide with severe discrimination against Palestinians in access to water throughout the Occupied Palestinian Territory and excessive consumption by the Israeli settlements (see E/C.12/1/Add.27, paras. 10, 24, 32 and 41).

40. Israel extracts more than 85 per cent of the Palestinian water from the West Bank aquifers, accounting for about 25 per cent of Israel's water use. Under Israeli restrictions, Palestinian water consumption per capita is 82 cubic metres as compared with 326.5 cubic metres for Israeli citizens and settlers. Figures for daily per capita water use indicate that Israelis use five times more water (350 litres) than Palestinians (70 litres). In the water-scarce Gaza Strip, Israeli settlers consume 584 litres per day, or about seven times the Palestinian per capita consumption there. Moreover, leakage from poor infrastructure is estimated to decrease the Palestinian allotment by another 24 to 36 per cent.[18] The World Health Organization (WHO) recommends a 100-litre per capita minimum daily consumption.[19]

41. In a pre-dawn assault on 29 February 2003, Israeli tanks and army bulldozers invaded Rafah (Gaza Strip) and completely destroyed the town's two main water-wells. The wells had produced 50 per cent of the town's scarce water resources.[20]

42. About 150 Palestinian communities have no independent water supply. Army closures and movement restrictions have cut them off completely from any water source. Armed Israeli settlers and uniformed soldiers occasionally destroy cisterns, contaminate collection tanks and damage pumps belonging to Palestinians. Israeli soldiers have destroyed water supplies of refugee camp families by shooting holes in roof-top cisterns.[21]

43. The shortage of water has obvious effects on the region's fragile environment. At the Wadi Gaza catchment, extending from Jabal Khalil (West Bank) to the Gaza coast, a levee on the Israeli side prevents the natural flow of water from reaching Gaza, although some flooding occasionally takes place. Aerial photos show the Gaza border as demarcating a land deprived of water. The site where the Israeli army recently extirpated some 26,000 trees had been the only significant green area in the northern Gaza Strip east of Beit Hanun.[22] The Israeli occupation has also left

95 per cent of the few forested areas in the Gaza Strip denuded.[23] The remaining green areas, such as El-Mawasi on the south Gaza coast, are the sites of intense settler activity and the current subject of Israeli military siege and comprehensive curfew on 15,000 Palestinian citizens.

44. The Desk Study on the environment in the Occupied Palestinian Territory, conducted by the United Nations Environment Programme (UNEP), observed that biodiversity and conservation problems had been aggravated in the present conflict by various means, including the following:

- Direct degradation from military operations
- Population pressures on natural systems owing to high growth rates and the continuing refugee crisis
- Growth of Israeli settlements where land is already scarce
- Restrictions on communications, movement and access, limiting environmental management measures
- Construction of the separation fence, blocking terrestrial fauna and cutting ecological corridors
- Solid waste and wastewater pollution
- Israel's clearing of vegetation for security, settlement and other purposes
- Fragmentation of areas, enforced by interim arrangements, making coherent and integrated approaches to environmental management impossible
- Lack of trust and cooperation between Israeli and Palestinian Authority institutions concerned with the environment, impeding cooperation.[24]

45. Industrial and waste-management practices are generally inadequate to preserve environmental health, and the required investment in treatment and protection measures is beyond the current means of most Palestinian institutions, even with the modest level of international assistance to date. More stringent Israeli standards do not apply in its settlements in the Occupied Palestinian Territory, owing to fiscal incentives and non-enforcement. Reportedly, this has caused migration of polluting Israeli industries, including asbestos, fibreglass, pesticide and flammable gas, notably in the settlements near Tulkarem (West Bank).[25] Further cooperation and field studies are needed to assess conflicting claims about contamination, such as from polychlorinated biphenals (PCBs) and radioactive waste, including possible depleted uranium munitions.[26]

46. Israeli closures and destruction of water and sanitation facilities and other infrastructure have degraded environmental health conditions, with children typically being affected disproportionately. Owing to army-imposed closures, solid waste disposal in the Gaza Strip has been particularly restricted, and this is also the case in all West Bank towns under the intermittent Israeli army curfews imposed since June 2002. Israeli army destruction of both the water network and sewage lines in Balata and Askar refugee camps (West Bank) has caused sewage to contaminate the water line, while Israeli army closures have hampered both personnel access to affected areas and material access to chlorine to administer needed remedial measures to treat the water supply. The World Health Organization

reported an outbreak of over 600 cases of shigellosis there between December 2002 and January 2003.

Public health

47. The World Health Organization has warned that the occupied Palestinian territory health system is in danger of collapse.[27] The crisis is reflected in a shortage of medicine/antibiotics used to treat injuries encountered; the inability of health personnel and patients to gain access to health facilities; and the lack of food, water and electricity. Frequent and long utility cuts have affected medicine supplies in central stores, and maintenance and other personnel have been prevented from reaching refrigerators and other equipment when needed to save precious supplies.

48. Closures and curfews have resulted in Palestinian health facilities operating at only 30 per cent capacity. There has been a 60 per cent decline in the implementation of school health programmes and similarly dramatic interruption of immunization coverage, including that for measles, tuberculosis (BCG) and polio.[28] UNRWA reports that only 46.5 per cent of refugee children are being immunized according to schedule. In addition, the Agency has reported a reduction in the use of preventive health services and a 52 per cent decrease in women attending post-natal care. Meanwhile, Israel's curtailment of Palestinian and international health worker movements has impeded epidemiological surveillance in the Occupied Palestinian Territory, making impossible the timely identification of, and response to, dreaded epidemic outbreaks.

49. On most days, 75 per cent of UNRWA health services personnel cannot reach their workplace. Consequently, 14,278 health staff workdays have been lost in the West Bank alone.[29] Despite the upgrading of 65 primary care centres, a recent survey by the United Nations Children's Fund (UNICEF) found that health workers had been unable to attend the clinics and that most centres had run out of essential medical supplies. The Director-General of the International Committee of the Red Cross described as absolutely unacceptable the fact that "useless humiliations take place" against Red Cross and Red Crescent staff and delegates in the field (A/57/207, para. 42).

50. Throughout the occupied Palestinian territory there are 100,000 persons with disabilities, either congenital or resulting from accidents. During the current crisis, Israeli settlers and soldiers have rendered 5,300 individuals permanently disabled through various acts of violence (Ibid., para. 61), such as incidents at the checkpoints and shootings. In the Jenin refugee camp assault, for example, three blind youths were left handcuffed in the street by the Israeli army for two and a half days. Other individuals with disabilities were also exposed to targeted army shooting (Ibid., paras. 62 and 63).

51. The Palestinian Ministry of Health reported that delays at checkpoints had resulted in 46 women delivering their babies while waiting for permission to pass through, as a result, 24 women and 27 newborn babies had died.

52. Soaring poverty has limited the local Palestinian food basket, leading to micronutritional deficiencies. Children and women are of special concern for nutritional depletion. A recent survey has shown a 15.6 per cent rate of severe

anaemia among children 6 to 59 months of age, and 6.6 per cent among non-pregnant women 15 to 49 years of age.[30]

53. The proportion of Palestinian children in the occupied Palestinian territory with wasting or acute malnutrition, one symptom of recent stress, is 9.3 per cent, four times the norm. The cases in the Gaza Strip are three times those in the West Bank (4.3 per cent versus 13.2 per cent), and the incidence is higher in non-urban areas than in urban centres (12.1 per cent as compared with 13.2 per cent).

54. Birth registers show a decline in the total number of births over the past several years, reflecting a trend begun before the *Intifada* and rooted in changing socio-economic conditions. While the birth rate was above 30 per 1,000 population per year in the mid-1990s, it dropped to less than 30 in 2001; the change is also partly attributable to delayed marriages.

55. The nature of the occupation and local conditions makes the collection of reliable data on population dynamics difficult, especially those on fertility, mortality and migration. While available mortality statistics are reported above, the birth rate has been a matter of considerable speculation.

56. Almost all children are exposed to violence, including shooting, witnessing violent death, and the destruction of their home and property, despite parental efforts to protect them from such horrors. Sleep-related dysfunctions are the most common manifestations of trauma. Distress among children especially leads to nightmares, bedwetting, insomnia and interrupted sleep patterns. Psychosomatic afflictions are common, including stress, headaches, stomach cramps, skin diseases, developmental regression, withdrawal, risk-taking behaviour, rebellion and rejection of authority, aggression and depression.

57. At the end of the 2002 incursions, a Bir Zeit University study showed 70 to 93 per cent of the interviewees reported at least one member of the family with mental health problems. Symptoms included great fear among children, manifesting in shivering, crying, appetite loss and sleeplessness.

Education

58. Violence and mobility restrictions keep children from educational opportunities. Neither teachers nor students can reach schools, and the Israeli army has destroyed 185 schools, while, of the 275 schools in the line of fire, others have been closed or are disused. Normal levels of classroom concentration are impossible in the unstable and often violent circumstances, especially when the army or settlers kill or injure a fellow student.[31]

59. There is no available assessment of academic achievement in the current school year, since Israeli-imposed closures and curfews have rendered examinations difficult to administer. Nevertheless, the United Nations Relief and Works Agency for Palestine Refugees in the Near East reports that final exam scores among refugee pupils in the Occupied Palestinian Territory for main curriculum subjects fell dramatically in 2002 as compared with 2000 and 2001. The proportion of students obtaining passing grades in Arabic declined from 71 per cent in 1999 and 2000 to 38 per cent in 2001; and the proportion with passing grades in mathematics dropped from 54 per cent to 26 per cent during the same period. The UNRWA compensatory

educational programme has since resulted in some recovery, but student achievement is still below the pre-2000 rates.

60. UNRWA schools reported the loss of 75,571 teacher days in 2001/2002, which is a 14-fold increase over the previous academic year. The consequent material cost to UNRWA regular school operations in 2001/2002 was $1,959,417, and an additional cost of $111,340 was incurred by the Agency's technical and vocational training programme.

61. With many schools closed, recreational and social activities are insufficient to meet children's needs. Moreover, many parents keep children indoors for their safety, although that does not prevent them from observing the conflict and suffering the moral and material losses.

62. With school systems failing to function, young people — the majority of Palestinians — have few productive outlets for their energies. Many children have sought odd jobs and dropped out of school to support the family, including selling gum and candy, washing car windows and selling newspapers. They run a high risk of long-term mental instability, physical insecurity, domestic violence and self-destructive behaviour. In East Jerusalem, this manifests itself in increased drug use and sales, reportedly with full knowledge of the Israeli police.[32] With 66 per cent of Palestinian residents of East Jerusalem living below the poverty line, the common correlation between indigence and drug abuse makes this aspect of life another indicator of Arab Jerusalem as the concentrated microcosm of the negative effects of occupation.

Economic situation

63. Owing to closures and the consequent loss of employment, Palestinian per capita gross national product declined by 12 per cent in 2000, 19 per cent in 2001 and 24 per cent in 2002. The sharp decline in Palestinian workers employed in Israel led to income losses of $757 million from October 2000 to end April 2002, or about 20 per cent of gross national income (GNI).

64. The decline in GNI has been considerable, dropping 23.2 in 2001 and 26.4, in 2002.[33] Estimates show that the crisis has already cost the Palestinian economy $5.4 billion in GNI, equivalent to the entire 1999 GNI, and over 50 per cent of 1999 gross domestic product. This is compounded by some $728 million in physical damage, including $150 million damage to donor-funded infrastructure.[34]

65. Poverty has risen substantially: 66.5 per cent of households are living below the poverty line, with a disproportionate number (84.6 per cent) in Gaza. Poverty levels have long-term consequences for public finance, trade balance, the savings-investment gap and social services. The Palestinian Authority has been forced into heavier dependence upon donor support for basic functions, diverting attention from long-term development goals.

66. Remittances from abroad have only partially offset the losses at the family and national levels. A total of 56.5 per cent of Palestinian households have lost more than half their income; more than 25 per cent (33 per cent in Gaza; 22 per cent in the West Bank) reported a loss of over 75 per cent; and 58.3 per cent have received humanitarian assistance, mostly in food aid. The dependency ratio has burgeoned to

more than 50 per cent. Whereas each bread winner was supporting an average of 5.1 persons in September 2000, she/he had to support 8.1 persons as of September 2002.

67. In comparison with the 128,000 workers from the occupied Palestinian territory employed in Israel in 2001, today 32,000 have been issued permits, of which only half can be used. In the meantime, foreign workers have filled the positions of many Palestinians formerly working in Israel, foreclosing the prospects of a return to former levels.

68. Recovery efforts seem remote. Most forms of aid seek to provide minimum welfare through humanitarian assistance. An unlikely doubling of donor support to a level of $2 billion could reduce the poverty rate only by 10 per cent,[35] and that only temporarily.

69. Production losses (manufacturing, construction, commerce, public and private services) have drastically increased where internal trade is nearly halted, reflecting a 75 per cent contraction in domestic output, for example, in April 2002. Palestinian enterprises have scaled down production activities, laying off employees; others have shut down completely. Diminished access to finance capital and building materials, and reductions in savings have forced a rapid decline in residential construction. Closures and destruction of crops have devastated the agricultural sector. Prior to 2002, the Israeli army had already destroyed 17 per cent of Palestinian productive agricultural crops, leading to a drop in production.[36]

70. Some 44 per cent of Palestinian households have had to reduce the quantity of their food, while 66 per cent have reduced the quality of food. Most (75 per cent) reported the reduction of monthly expenditures on meat of all kinds and on fruits, and 58 per cent have reduced their consumption of milk and milk products.[37]

71. Until recently, Israel had withheld Palestinian Authority revenues collected by agreement under the clearance system, including customs duties and excise taxes. By end February 2002, the loss amounted to $507 million. That, plus the declining ability to collect tax revenues, contributed to mounting Palestinian Authority budget deficits, leading to salary reductions and delayed liability payments,[38] borrowing on the commercial market and generally reducing expenditures on services. Through 2002, donors had contributed $40 million per month, or about half of Palestinian Authority spending, totalling $1.1 billion by the end of the year.[39] The Palestinian Authority public debt rose sharply to $1.2 billion by mid-2002.[40]

72. The informal economy, especially in West Bank villages, has expanded as impoverished households have resorted to desperate subsistence strategies. By 2002, the protracted conflict had exhausted most coping strategies, rendering families increasingly more dependent upon humanitarian assistance, including direct food aid and financial assistance.[41]

73. More Palestinian men than women have directly undergone the physical violence of Israel's military occupation, such as killing, injury, imprisonment and torture. In addition, as a result of the closures, detention and outright humiliation of commuting to jobs through Israeli checkpoints, the overall economic depression and resulting poverty have combined to prevent Palestinian men from performing their traditional role as breadwinners. Meanwhile, women's domestic roles and responsibilities have expanded, while their socio-economic roles and position have deteriorated. Among the consequences are the high levels of anxiety and despair that translate into domestic and apparently gender-based violence.

74. The socio-economic burden on Palestinian women has increased with their assumption of the role of head of household in the absence of the husband. In acute poverty, women have adopted coping strategies to maintain the domestic economy, such as planting, bartering or selling foodstuffs.

III. Occupied Syrian Golan

75. Israel has occupied the Golan Heights in the Syrian Arab Republic since 1967.

76. Under such a prolonged occupation, the consequences have been extensive, affecting all aspects of life for families, villages and communities. There has been no change in Israeli policy regarding the occupied Golan. The number of settlers has increased, with the 37 existing settlements expanded during the period under review.[42] Relations between the settlers and the Arab population remain tense, particularly where settlements are located close to Syrian villages.

77. The occupation of the Syrian Golan has perpetuated the separation of families who live on either side of the valley constituting the demarcation line. Syrian students returning to their families in the Syrian Golan Heights reportedly face severe interrogations and confiscation of their belongings. Others are reportedly held in arbitrary detention for many days, facing torture and humiliation.

78. School facilities are inadequate to cover the needs of all Syrian children of school age: among a population of 25,000 located in five villages, only 5,500 boys and girls are in overcrowded classrooms. A rapid school drop-out rate is putting the children in the labour market in Israel, where they receive a lower salary than others doing the same job. There is a shortage of health centres, hospitals or clinics, maternal care, and laboratories for basic analysis and emergency services.

79. The economic consequences of the occupation for the local population include a lack of equal employment opportunities, heavy taxes, fixed low prices imposed on the main agricultural products (for example, apples), arbitrary arrest and detention, and inadequate health care. Israeli authorities have depleted the Golan environment by uprooting trees, burning forests and allowing dumping of untreated chemical waste from factories in the Israeli settlements.

80. Settlers compete with Syrians in economic activities, especially in agriculture, the principal activity of the Arab population. This is compounded by the Arab population's restricted access to water as compared with the settlers.

Notes

[1] *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 13* (A/58/13).

[2] United Nations Technical Assessment Mission, *Humanitarian Plan of Action 2003 for the Occupied Palestinian Territory* (New York and Geneva, 2002).

[3] A/ES-10/186. Area A designates the vicinity where the Palestinian Authority has complete authority over civilian security.

[4] B'Tselem; available from http://www.btselem.org/english/statistics/imprisoned.asp.

[5] In response to a letter sent by the Public Committee against Torture in Israel (PCATI), 26 November 2002; available from http://www.stoptorture.org.il/eng/press.asp?menu=7&submenu=1&item=94.

[6] Al-Mezan Center for Human Rights, "Families have their homes destroyed for the second time; the IDF target water resources in Rafah" (press release 8/2003, 30 January 2003), available from http://www.mezan.org/main.htm.

[7] Land Research Center (Jerusalem); see http://www.lrcj.org.

[8] Al-Mezan Center for Human Rights; see http://www.mezan.org/main.htm.

[9] E/CN.4/2202/184, para. 15; A/57/207, paras. 32 and 69; and World Bank, *Fifteen Months — Intifada, Closures and Palestinian Economic Crisis: An Assessment* (Washington, D.C., 2002), chap. 3.

[10] See Mission to the Humanitarian and Emergency Policy Group of the Local Aid Coordination Committee, *The Impact of Israel's Separation Barrier on Affected West Bank Communities* (2003).

[11] Ibid.

[12] Yehezkel Lein, "Land grab: Israel's Settlement Policy on the West Bank" (B'Tselem, 2000). This is in addition to some 30 per cent of West Bank land that the Israeli army have confiscated and closed for other purposes.

[13] Shlomo Swirski, Etty Konor-Attias and Alon Etkin, *Government Funding of the Israeli Settlements in the West Bank, Gaza Strip and Golan Heights in the 1990s of Local Governments, Home Construction, and Road Building* (Tel Aviv, Adva Center, 2002). Values based on exchange rate of NIS 4.45 per United States dollar.

[14] See Dror Zaban, *Israeli Government Expenditures for Settlements, 2001-2002* (Jerusalem, Peace Now, January 2003).

[15] "Plan for five new colonies in Rimal Haloutza near the Egyptian border", *Monitoring Israeli Colonizing Activities in the Palestinian West Bank and Gaza* (Applied Research Institute Jerusalem, 14 January 2003), available from arij.org/paleye/index.htm.

[16] According to the Palestinian Center for Human Rights (Gaza), for each 100 km road, some 10,000 dunums (2,500 acres) of land are confiscated. Available from http://www.pchrgaza.org/. Path: Statistics/Settlements.

[17] Ministry of Agriculture, "Report on Palestinian agriculture losses due to recent Israeli action: September 2000-February 2002" (Ramallah, Palestinian Authority, 2002).

[18] B'Tselem, "Thirsty for a solution: the water shortage in the occupied territories and its resolution in the final status agreement", position paper (Jerusalem, 2000).

[19] United States Agency for International Development, "Report of the West Bank and Gaza mission", (Washington, 1999); and World Health Organization, *Guidelines for Drinking Water Quality* (Geneva, 1998), available from http://www.who.int/water_sanitation_health/dwq/guidelines/en.

[20] Al-Mezan Center for Human Rights, op. cit.

[21] See B'Tselem, "Not even a drop: the water crisis in Palestinian villages without a water network" (Jerusalem, B'Tselem, 2001).

[22] The World Bank had counted 23,000 by early November 2001. See *Fifteen Months — Intifada, Closures and Palestinian Economic Crisis: An Assessment* (2002). See also Applied Research Institute of Jerusalem (ARIJ).

[23] The 42,000 dunums in 1971 had already been reduced to 2,000 by 1999. See http://www.arij.org.

[24] Based on findings of the *Desk Study on the Environment in the Occupied Palestinian Territories* (Nairobi, United Nations Environment Programme, 2002), available from http://www.unep.org/Documents. Path: press releases, July 2002.

[25] Ibid.

[26] Ibid.

[27] World Health Organization, *West Bank/Gaza Strip Health Update* (4 April 2002).

[28] Ibid.

[29] Palestinian Ministry of Health.

[30] The Palestinian Central Bureau of Statistics, the United States Agency for International Development (USAID), al-Quds University and Johns Hopkins University have shown an increase in malnourishment and anaemic children. The Bureau survey showed 9.2 per cent moderate to severe malnutrition among children 6 to 59 months old. In the same survey, non-childbearing women from 15 to 49 showed moderate to acute malnutrition at 5.5 per cent. The USAID survey showed those instances at 13.2 and 9.3 per cent respectively.

[31] See Conal Urquhart, "Playground bombing injures 20 Palestinians", *The Guardian* (UK), 10 April 2003. Jewish extremists from the shadowy "Revenge of the Infants" group claimed responsibility for exploding a bomb in a West Bank school playground on 9 April 2003 at the village of Jaba'a, south of Jenin, wounding 20 children.

[32] Amira Hass, "Under the noses of the Israeli police", *Ha'aretz*, 4 February 2003.

[33] World Bank, *Two Years of Intifada, Closures and Palestinian Economic Crisis: An Assessment* (Washington, D.C., 2003).

[34] Ibid.

[35] Ibid.

[36] Palestinian Economic Council for Development and Reconstruction (PECDAR), "People under siege: Palestinian economic losses, September 2000-September 2001" (Ramallah, 2002).

[37] According to the Palestinian Central Bureau of Statistics.

[38] $527 million in arrears at June 2002.

[39] World Bank, *Two Years of Intifada, Closures and Palestinian Economic Crisis: An Assessment* (Washington, D.C., 2003). The Arab League contributed $840 million, and the European Union $230 million.

[40] *MAS Economic Monitor*, No. 6, April 2000; "Interview with Palestinian Authority Finance Minister Salam Fayyad", *Al-Ayyam* (Ramallah daily), 6 July 2002.

[41] United Nations Special Coordinator in the Occupied Territories, "Paying the price: coping with closure in Jericho, Gaza City and in two Palestinian villages" (Gaza, January 2002).

[42] Some 77 per cent of the residents are European/North American by birth. Available from http://www.fmep.org/images/charts/chart0007_1.jpg.